



Internal Audit

**Tempe Center for the Arts
November 2014**

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I. INTRODUCTION

The Tempe Center for the Arts (TCA) is a section of the City's Community Services Department - Arts and Cultural Division. A Facilities Manager oversees administration of the TCA. The majority of current staffing is comprised of temporary employees, with a heavy complement of volunteers:

Employee Category	#
Regular Full-Time	15
Temporary (including Office & Field)	21
Temporary (Seasonal)	87
Volunteers (Front of House, Gallery Docents, & Administration)	73
Total	196

Origins of the TCA

In May 2000, Tempe residents voted yes to Proposition 400 to approve a one-tenth (1/10) of a cent sales tax to pay for an arts center. The tax extends through FY2020/21. The 84,831 square foot structure, located on Tempe Town Lake's south bank, was built to house a 600-seat main theater, a 200-seat studio, and a 3,500 square-foot gallery. Minutes of the Tempe City Council's Cultural and Community Programs Committee reflect that in June, 2001 it appears that initially, the center's main theater was designed for only 500 seats. The response from the public was that a 500 seat main theater was too small. Right-sizing the TCA was debated and it was ultimately sized to 600 seats.

Ceremonies to break ground for the TCA were held in March, 2004. The Grand Opening was September, 2007 at which time a gala reception was held as a fundraiser for

the newly formed Friends of the TCA (a support and fundraising group).

Costs

Minutes of a Council Issue Review Session held October, 1999 reflect that total initial costs for construction (building, furnishings, equipment), site development (parking, utilities, roads), and non-construction costs (fees, owners' costs) were projected between \$26.7 and \$28.2 million for the project. By April 2003, estimates more than doubled to \$63 million. In September 2003, the Tempe City Council approved \$65.7 million for the construction of the TCA; actual final costs to raise the TCA totaled \$65.5 million. Some underlying causes for the increased costs were attributed to ground excavation and higher than expected construction costs.

Financing

Bonds totaling \$61,740,000 were issued to finance the TCA. The current outstanding balance owed on these bonds follows:

Maturity Date	Amount
July 1, 2016	\$4,665,000
July 1, 2020	17,865,000
Total	\$22,530,000

All totaled, including interest payment obligations to repay funding for the actual building of the TCA, total financing costs approximate \$84,548,281 (\$61,740,000 plus interest of \$22,808,281).

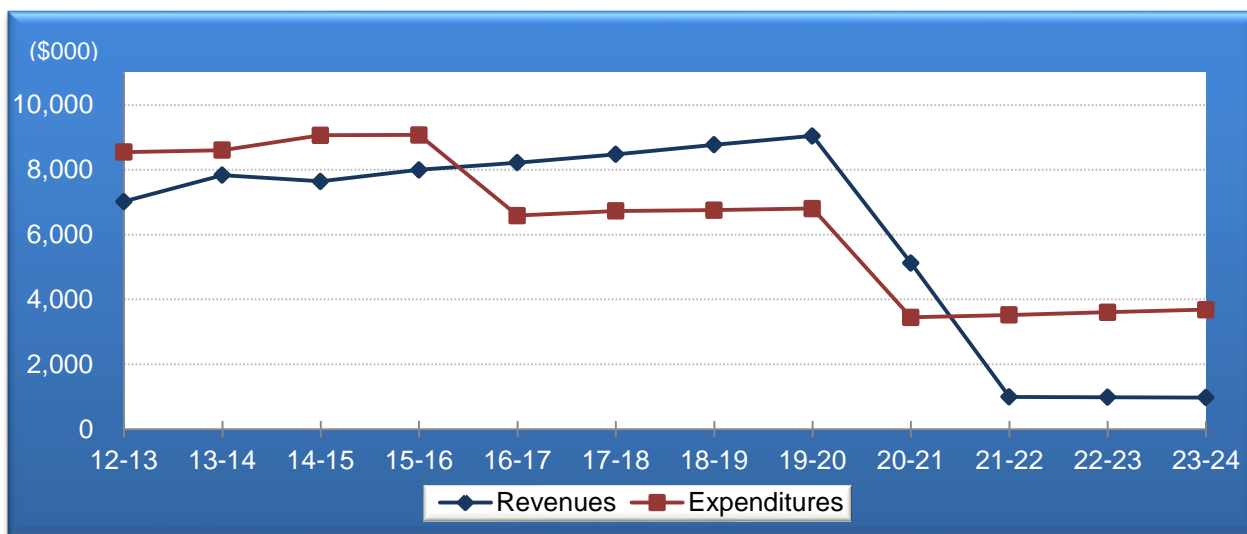
The initial intent was to ensure that in 20 years (the life of the tax) there would be a reserve in place to support the operation and

maintenance of the facility without needing support from the City's General Fund. A \$20 million reserve was projected to be in place upon expiration of the tax at the end of fiscal year FY2020/21. The City initially expected to raise in excess of \$60 million from the dedicated sales tax; current projections approximate a total of \$130.9 million will be collected.

Council also approved a proposal to sell naming rights to all or part of the TCA, but this never came to fruition.

The following chart, prepared by the City's Budget Division, depicts current projections of the Performing Arts Fund revenues and expenditures to FY2023/24:

Performing Arts Fund: Projected Revenues and Expenditures: October 16, 2014



The projected \$20 million reserve in the Performing Arts Fund, upon expiration of the tax in FY 2020/21, is not expected to be realized. Current projections are at \$7.5 million, approximately 147% of projected

annual facility revenues, given the present operating structure and activity. By FY2023/24, three years after the tax expires, the fund is expected to be in a deficit.

Vision for the Center

The June, 2001 minutes of the Tempe City Council's Cultural and Community Programs Committee, reflect the stated mission of the TCA as:

The Tempe Performing and Visual Arts Center is envisioned as a vibrant, innovative cultural and artistic venue serving the larger

Tempe Community. As the home for Tempe's Artists and Cultural Arts Administration, the Center's dynamic and inclusive programs will educate through the arts, continuing the tradition of Tempe providing an enriched quality of life for its citizens.

Neil Giuliano, Mayor of Tempe in 2003, was quoted in a local newspaper as stating:

“I believe this arts center can become a national center for children’s art and theater. We are not building this center to compete with others around the valley.”

In the same news article, it was stated that Tempe’s decision to build a niche center followed a study that showed the Valley lacks specialty cultural venues.

In addition to hosting meetings and conferences, it was projected that seventy-five percent (75%) of the acts to come to the TCA would be performed by local companies. The TCA had a vision that it would train tomorrow’s audiences. The project was considered one of the community’s most outstanding cooperative efforts.

Partners

When the TCA finally opened in the fall of 2007, the following organizations were

considered key partners, instrumental in the formation of the TCA:

- Childsplay
- A Ludwig Dance Theatre
- Tempe Community Chorus
- Arizona Wind Symphony
- Tempe Symphonic Wind Ensemble
- Desert Dance Theater
- Tempe Little Theatre
- Arizona Academy of the Performing Arts
- ASU Public Events

Primary Systems

The TCA has two primary systems in use for daily operations. TicketForce is TCA’s ticketing system. When customers purchase tickets on-line and box office staff sells tickets over the phone or in-person, they use the TicketForce system. For facility rental reservations and transactions, the TCA uses EventPro. This system is used to book reservations, track deposits, and produce customer invoices.



II. AUDIT SCOPE

Audit Initiation

The audit of the TCA was performed as part of the Internal Audit Office's annual audit plan. The inherent nature of operations and other risk factors ranked the TCA relatively high in our overall citywide risk assessment, which prompted scheduling this audit during FY2013/14.

Objectives

The objectives of the audit of the TCA were to assess and determine whether:

1. The TCA has a clear mission and strategic plan that establish a path to financial and operational sustainability.
2. The roles and responsibilities of related Boards/Commissions are conducive to effective, efficient, and sustainable operations of the TCA.
3. Adequate systems and internal controls are in place to ensure the accuracy and completeness of revenue and disbursement flows to and from the TCA.
4. There are adequate controls in place to safeguard assets owned by and entrusted in the care of the TCA.
5. Terms of contractual agreements are adequate and complied with.
6. Opportunities exist to enhance operating effectiveness and efficiencies.

Methodology

We performed the following procedures during the course of our audit:

- ▶ Interviewed staff and management of the TCA;
- ▶ Interviewed other Arts Centers' representatives;
- ▶ Surveyed past patrons of the TCA services (ticketed performances and space rentals);
- ▶ Reviewed ticket sales and facility rental transactions;
- ▶ Observed inventory of major assets and assessed inventory controls;
- ▶ Analyzed internal controls over cash and accounts reconciliation;
- ▶ Assessed other revenue streams such as catering commission, donations, grants, and merchandise sales commission;
- ▶ Reviewed operating expenditures;
- ▶ Analyzed performing arts fund tax revenues and bond financing;
- ▶ Reviewed relationships with partner organizations and support groups;
- ▶ Analyzed current marketing efforts; and,
- ▶ Reviewed contracts with third parties.

Roles and Responsibilities

The Internal Audit Office strives to assist managers with the effective discharge of their responsibilities to achieve departmental goals and contribute to the City's mission. Internal Audit promotes effective controls and furnishes management with an independent appraisal and recommendations related to the activities reviewed. Our role is vital to maintaining the public's trust that the City's resources are used effectively and efficiently.

TCA facility management is ultimately responsible for, and must assume ownership of, their internal control system. Internal controls are used by managers to provide reasonable assurance that their objectives will be achieved. Internal control is also the

primary mechanism for deterring and detecting fraud.

To summarize, facility management is responsible for establishing and maintaining adequate internal controls. Internal Audit must use due care in examining and evaluating the effectiveness of internal controls and to understand the related exposures and risks. Due care does not require a detailed audit of all transactions.

Therefore, internal auditors cannot give absolute assurance that all noncompliance and fraud will be detected.

Follow-Up

Internal Audit follows up on the status of all recommendations approximately six (6) to twelve (12) months after audit completion to assess the status of implementation efforts.

III. CONCLUSION

Internal Audit found that the TCA did not have a clear mission, vision, or strategic plan in place to support financial and operational sustainability. In addition, we identified many opportunities to bolster the internal control environment that will serve to provide assurance as to the accuracy and completeness of revenues, the safeguarding of assets, and reduce overall risk.

We also found opportunities to enhance operating effectiveness and efficiency.

Internal Audit truly appreciates the collaborative effort that management and staff provided us throughout the course of the audit process. Significant progress has been made towards bolstering the internal control environment, enhancing services and moving the TCA towards operational and financial sustainability.



IV. DETAILED OBSERVATIONS

Internal Audit has categorized our observations and recommendations by the following sections:

Section 1: Arts Organizational Practices and Patron Feedback

This section looks at industry benchmarks and standards, compares the TCA to other local and regional arts centers, and scrutinizes surveyed patron feedback.

Section 2: Operational & Financial Sustainability

This section reviews the operational and financial sustainability of the TCA, including opportunities to enhance current revenue streams.

Section 3: Assets and the Internal Control Environment

This section provides an analysis of the current internal control environment over assets at the TCA and offers suggestions to improve controls.

Section 4: Existing Revenues and Expenditures

This section identifies opportunities to enhance internal controls and increase existing revenue streams and more effectively manage expenditures, which will result in the TCA being more self-sufficient.

Section 5: Managing Relationships

This section explores issues with the current relationships the TCA has with outside entities such as partner and support groups.

Section 1 – Arts Organizational Practices and Patron Feedback

The Arts Industry

Americans for the Arts

Americans for the Arts is an organization whose mission is to serve, advance, and lead the network of organizations and individuals who cultivate, promote, sustain, and support the arts in America. They provide a definition of local arts agencies as follows:

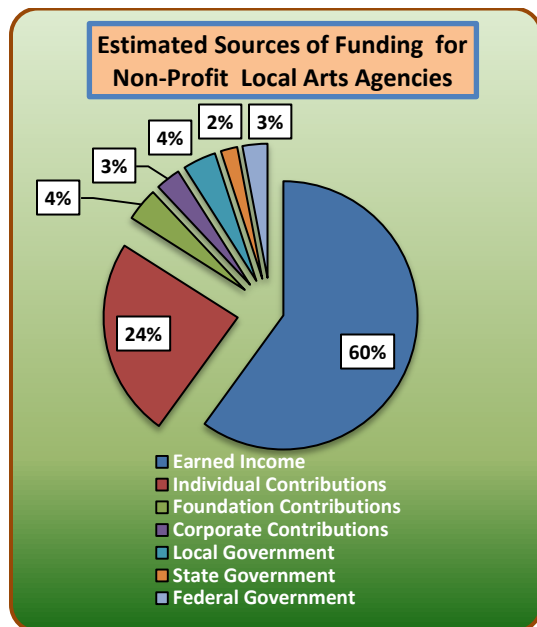
Local arts agencies work to ensure a vital presence for the arts in communities across the country. They

provide services to sustain their local arts industries and endeavor to make the arts accessible to every member of their community.

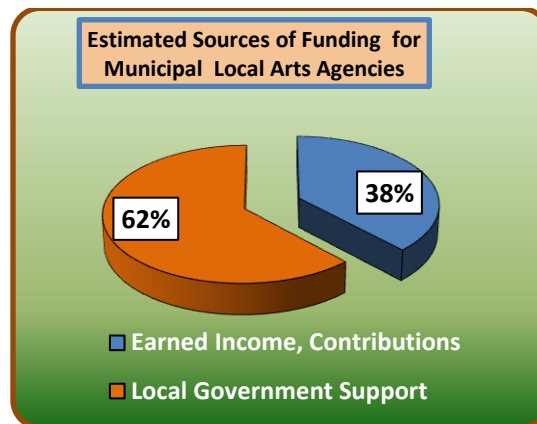
There are more than 5,000 local arts agencies in the US; in 1965, there were only 400 agencies. Of these agencies, 75% are private nonprofit organizations, and 25% are agencies of city or county governments.

Each agency is unique to the community that it serves; there are no two exactly alike. What they all share is the goal of providing accessible opportunities for diverse art forms and culture to thrive and engage communities. Ninety-six percent (96%) of local arts agencies maintain at least one collaboration or partnership with public or community agencies such as School Districts, Parks & Recreation, Social Services, Economic Development Departments, or a Chamber of Commerce. Seventy-two percent (72%) of local arts agencies implement arts education programs and activities, including providing artists in the schools, teacher training, and arts education advocacy.

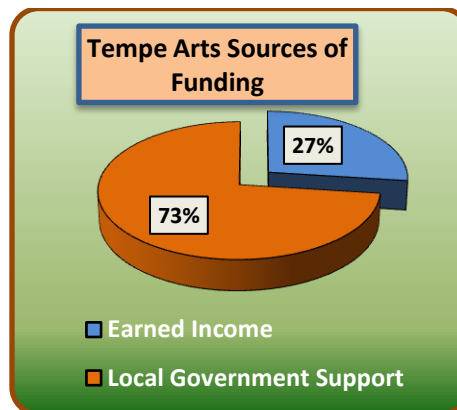
Sources of revenue for *private non-profit* local arts agencies approximate sixty percent (60%) earned income (ticket sales, sponsorships, and fundraising events), thirty percent (30%) private-sector contributions (individual, foundation, and corporate giving), and ten percent (10%) government support. This trend is illustrated below: ↓



Sources of revenue for *Municipal non-profit* arts agencies average sixty-two percent (62%) local government support, and thirty-eight percent (38%) earned income and contributions. Reports from these agencies include funding for all cultural services. This is illustrated in the following chart: ↓



Sources of revenue for the TCA, a *Municipal Local Arts Agency*, approximate seventy-three percent (73%) local government support (including tax subsidy) and twenty-seven percent (27%) earned income and contributions (contributions are negligible). Included in the government funding are all cultural services (History Museum, instructors, programming and administrative services) provided by the City, in addition to the TCA for comparison purposes. ↓



Arts agencies' reliance on government funding isn't unique in the arts industry.

Nationally, most groups have struggled in recent years, per Americans for the Arts. According to studies by the national advocacy group, more than forty-two percent (42%) of all arts organizations had an operating deficit in 2011. Arts spending has declined steadily as a share of total consumer dollars since 2002, predating the

recession and donations to the arts hit a ten (10) year low in 2011 when adjusted for inflation (although giving has recently increased.)

Observations within this section of the report identify opportunities for the TCA to enhance operational and financial sustainability.

1. A Glance at Other Arts Centers

In order to obtain a view of how other arts centers do business, survive and even thrive within this industry, interviews were conducted with other arts centers. A total of eleven (11) venues were selected for review; eight (8) ultimately participated. The venue selection process was developed with the TCA facility management's input and designed to include a variety of venues that show the diversity of structures, strategies, challenges and best practices in the industry. A comprehensive listing of questions was compiled for use with all arts centers to ensure consistency. A detailed

summary of the interviews is located in Appendix I of this report.

The following Arts Centers participated:

1. Mesa Arts Center
2. Chandler Center for the Arts
3. Scottsdale Center for the Performing Arts
4. Higley Center for the Performing Arts (Gilbert)
5. Phoenix Theater
6. Herberger Theater Center
7. San Ramon Arts Center, CA
8. Renton IKEA Performing Arts Center, WA

An Overview of Interviews with Other Arts Centers

Mission and Vision

- ✦ Most centers' mission and vision statements were detailed and clearly articulated.

Organizational Structure

- ✦ Tempe, Mesa, the Herberger, Phoenix Theater, San Ramon, and Scottsdale all operate in city-owned facilities.
- ✦ Chandler's facility is owned by the City and the School District; costs are shared

by the City, School District, and their Foundation.

- ✦ Centers for Gilbert and Renton are owned and operated by the School District; there is no City involvement.
- ✦ Cities are more directly involved in the operations of the Centers for Tempe, Mesa, Chandler, and San Ramon.
- ✦ San Ramon uses a management group and an advisory board to oversee the Center

- ✦ Memorandum of Understandings (MOUs) with 501(c)(3) foundations are in place for Tempe, Mesa, and Chandler; the level of involvement of the foundations vary.
- ✦ The Herberger and Phoenix Theater operate as 501(c)(3) organizations. The City maintains each Center to some degree. Both have boards with various responsibilities.
- ✦ Scottsdale's Center is part of the Scottsdale Cultural Council with governing and advisory boards.

Center Capacity

- ✦ Mesa and Phoenix Theater each have four (4) Theater spaces; the Herberger and Chandler have three (3); Tempe, Scottsdale, Gilbert, and San Ramon have two (2); Renton has one (1).
- ✦ Most Centers have additional space available for rental such as galleries, lounges, reception areas, lobbies, terraces, etc.
- ✦ Main Theater capacity ranges from 378 to 1,600 seats; average seating capacity for all Centers in this group is 900 seats.
- ✦ Capacity for the second largest theaters (studios) ranges from 90 to 550 seats; average seating capacity for all studio space in Centers is 259 seats.

Strategic Planning

- ✦ With the exception of one Center, all have a strategic plan in place, including the TCA.

Resident or Partner Companies

- ✦ Including the TCA, four (4) Centers have resident or partner companies; five (5) Centers do not.
- ✦ Resident/Partners do not receive additional reduced rates at all Centers.

Programming

- ✦ While the TCA does minimal programming, Mesa, Chandler, Scottsdale, Gilbert, Phoenix Theater and San Ramon have significant presenting programs.
- ✦ The Herberger only programs their lunchtime theater and community outreach; Renton strictly rents out space.

Ticketing Systems

- ✦ The ticketing system most widely used is Ticket Force. Ticketmaster is used by three (3) centers, Tessitura by two (2), Audience View and Sabo Seat advisor by one (1). Renton, does not utilize any system as they only rent space.

Concessions and Catering

- ✦ For those Centers with gift shops or galleries with sales merchandise, all take a percentage of sales. One Center manages their gift shop in-house.
- ✦ All centers have concessions. Four (4) Centers run their own concessions. All take a commission with the exception of Renton. In Tempe, a commission is taken on merchandise sales (20% if TCA staff assists, 10% otherwise, waived for partner organizations).
- ✦ Four (4) Centers, including the TCA, maintain a list of preferred caterers. Some require this list be used; others do not; three (3) Centers don't have preferred lists. Commissions are made on all these sales. One (1) Center has no catering and one (1) permits it, but does not take a commission.

Marketing

- ✦ Many Centers use electronic media through websites, emails, list serves, and social media to promote their programs and services. Building of patron

databases is significant to expand marketing coverage.

- ✦ Some successfully market through direct mailings.
- ✦ A significant portion of marketing by the Centers is focused on individual productions, with marketing budgets allocated for each show.
- ✦ Some facility or branding marketing is done, but is typically modest.

Sustainability

- ✦ Tempe currently relies on the sales tax to sustain operations.
- ✦ Chandler has an endowment fund for operating reserves.
- ✦ Mesa, Scottsdale and San Ramon have established either a fee or a depreciation reserve to fund maintenance, equipment, and other capital items.
- ✦ Extensive use of volunteers, low levels of permanent positions and flexible staffing help keep personnel costs down.
- ✦ The old model, where Arts Centers are thought to be losing propositions needs to be broken; the new model is where you make your own opportunities and form partnerships.
- ✦ Top notch people make a big difference.
- ✦ Align offerings to what people want.
- ✦ Survey customers.
- ✦ Seek to breakeven or profit from each venture.

Challenges

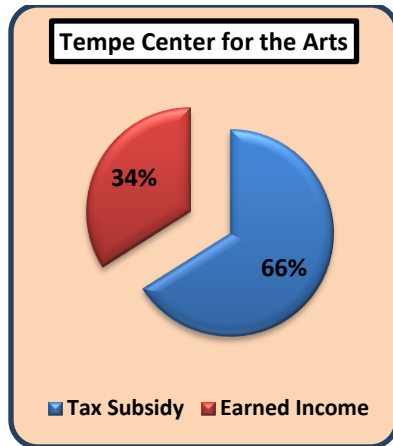
- ✦ Chandler, Scottsdale, Phoenix Theatre and Gilbert mentioned competition and/or keeping up to stay out in front as a significant challenge.
- ✦ Financial challenges were mentioned by Tempe, Gilbert, Herberger, San Ramon, and Renton. Mesa also mentioned seeking contributed income as a challenge.
- ✦ The size of the facility is restrictive for Tempe and Renton.
- ✦ Lack of a clear vision is problematic for Tempe.
- ✦ Tempe, Chandler, and Mesa face staffing capacity and inflexibility issues.
- ✦ Equipment replacement is a concern for Tempe.
- ✦ Programmatic risks and scheduling also surfaced as challenges.

What do you do Best?

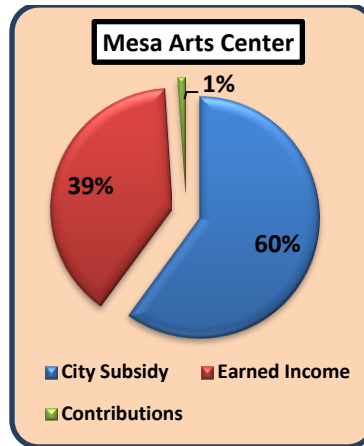
- ✦ Focusing on the customer is a common thread.
- ✦ Connection with the community is essential.
- ✦ Great working crews contribute to success.
- ✦ Communicate with other Centers.
- ✦ Management dedicated to the arts.
- ✦ Comprehensive quality arts programming.
- ✦ Collaborative programming.
- ✦ Educational programming.
- ✦ Outstanding venue.

Funding Source Ratios

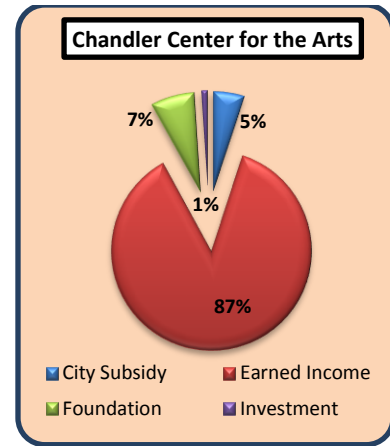
The following pie charts illustrate the proportional funding sources for each center, including the TCA:



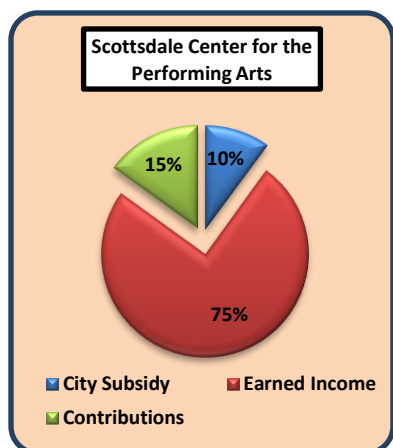
- City owned and maintained facility
- City involved in arts administration
- Minimal Foundation involvement



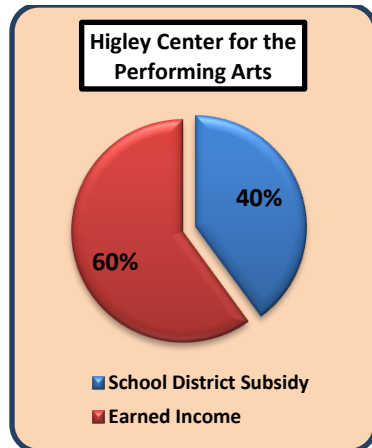
- City owned and operated facility
- City involved in arts administration
- Foundation seeks corporate sponsors, grant funds and Youth Education funding



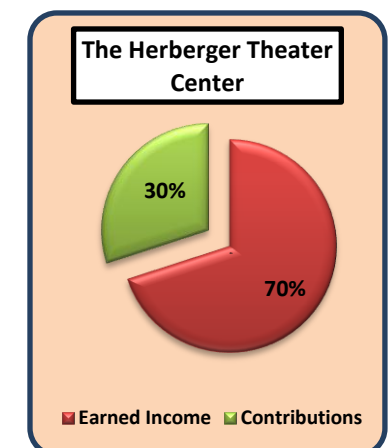
- City and School District owned and maintained facility
- City involved in administration; costs are shared by City, School District and Foundation
- Foundation is substantially involved with fundraising and support of the center



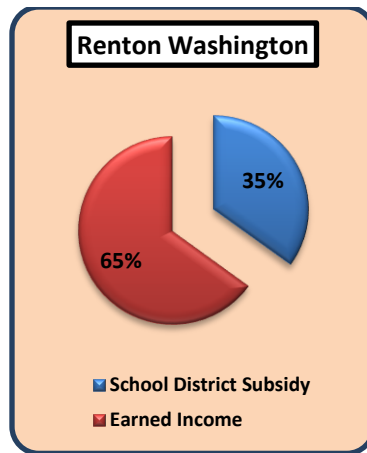
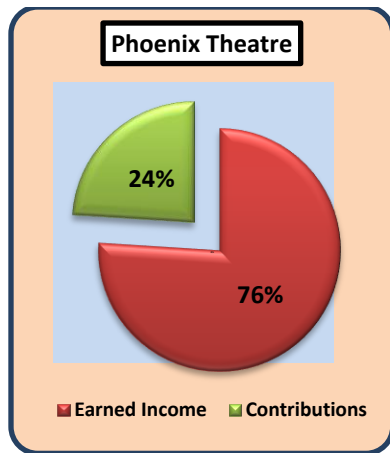
- City owned and maintained facility
- Scottsdale Cultural Council Administration with governing and advisory boards



- School District owned and operated facility
- Advisory board



- City owned and operated facility
- 501(c)(3) administers arts
- Board makes policy decisions, ensures financial stability and sustainability and engage in fundraising



Note:

Not all facility-related costs covered by cities are factored in for Herberger, Phoenix Theater, Chandler, and Scottsdale.

Information was not available in a comparable format for San Ramon.

- City owned and maintained facility
- 501(c)(3) administers arts
- Board oversees fundraising and staffing

- School District owned and operated facility
- No board oversight

An Overview of Responses from other Centers to “What do you know about the TCA?”

One of the questions asked of Arts Center representatives was “What do you know about the TCA?” Responses to this question are detailed in Appendix II of this report and are not associated with any particular respondent. The following provides an overview of these responses:

- ✦ Seventy-five percent (75%) of respondents associate the TCA with Childsplay.
- ✦ The facility itself is considered a great space, stunning and beautiful. Some feel the Center is in a great location; while other comments suggest it needs to be closer to the center of action.
- ✦ Many indicated that the size of the facility is challenging for presenting programs, but that TCA could work to find shows that would be profitable. It is not simple given this challenging size. Suggestions indicate it should have been

up to double its current seating capacity when initially built.

- ✦ Many commented that without programming, the TCA would not be successful. Programming would not be without difficulties due to the small theater sizes.
- ✦ The TCA’s purpose has been evasive; they need to understand what the Center was built for.
- ✦ In this industry, it can take a long time, 15-20 years to become successful.
- ✦ It could be so much more.....
- ✦ They have a brand issue, what is their niche market?
- ✦ Needs better signage.
- ✦ They need a strong artistic director, professional programming staff, business knowledge, the right leader, and the right people. Administration should be taken out of the hands of government and contracted with a 501(c)(3) corporation. They need a different model.

Recommendation

1.1 It would be beneficial for the TCA to further strengthen alliances and working relationships with other arts organizations, especially within the region to keep connected with current

trends, emerging challenges and opportunities, complement each other and work together to celebrate and engage the Valley in the Arts.

Management Response

1.1 *TCA management and staff will continue to build upon existing relationships with colleagues at local venues including Mesa Arts Center, Herberger Theater Center, Chandler Center for the Arts, Scottsdale Center for the Performing Arts and Del Webb Center for the Arts. In addition, staff will broaden relationships with*

regional and national venue operators, arts agencies and trade associations, such as Arizona Presenters Association, International Association of Venue Managers, United States Institute of Theater Technology, International Ticketing Association and the American Association of Museums.

2. Patron Surveys

Surveys are effective management tools to solicit and obtain customer feedback with the intent of fostering customer loyalty and satisfaction, and ultimately increasing an organization's chances for success by positively impacting operating revenues and enhancing overall effectiveness.

Surveys can provide management with an opportunity to identify trends and correct outstanding customer concerns that can negatively impact the image, attendance levels and frequency of venue and equipment rentals at the TCA.

Patron Surveys by the TCA

Customer satisfaction surveys are not routinely administered by the TCA. The TCA last completed a survey of rental

clients and performance patrons in the spring of 2012. Highlights of the 2012 survey's responses include:

- ✦ 87.2% agreed that the TCA facility met their expectations.
- ✦ Respondents expressed disappointment with the catering options and the lack of competitive catering pricing. *

** Issues with catering options and pricing have resurfaced through the survey process conducted by Internal Audit.*

Patron Surveys by Internal Audit

Between the period of September 23, 2014 and October 20, 2014, Internal Audit surveyed 374 rental clients and 6,000 performance patrons. Eighty-five (85) out

of 374 (22.7%) rental clients responded to the survey. Three hundred and forty-three (343) out of 6,000 (5.7%) responses were received from the performance patrons' survey. Results from both surveys provide

opportunities to address customer concerns and enhance the overall TCA experience. The following provides an overview of the survey responses:

A General Overview of Patron Responses (Ticketed and Rental Patrons)

Overall, the TCA received high approval ratings related to the physical appearance of the facility and the level of customer service received. Ninety-eight percent (98%) of the survey participants rated the cleanliness of the facility as "Excellent" or "Good". The overall customer service was rated by 84% of the survey participants as "Excellent" or "Good".

The following provides an overview of comments and opportunities for enhancement of the TCA's services and operations identified through survey responses. See Appendix III for detailed survey results.

Purpose/Frequency of Visiting the TCA

- ✦ Of the 15 typical events/programs that were offered to select from, four (4) events/programs were used more frequently. Survey respondents' usage for these four (4) selections occurred from 8% to 15% of the time.

Catering:

- ✦ Twenty-three percent (23%) of rental survey participants were "Not Satisfied" with the reasonableness of the catering food and beverage rates. This sentiment was also identified in the TCA Spring 2012 survey.
- ✦ Survey participants' unedited comments related to catering included:

- ◆ *More events would be held there if didn't have an exclusive and ridiculous contract*
- ◆ *Expand caterer options...*
- ◆ *Open up the catering process. Current caterers are price gouging.*
- ◆ *Forcing a catering company on family sponsored events is making it financially impossible to host events like ours in TCA. There are many families who love the theater but decide not to host in TCA because of astronomical catering rates. I hope TCA allows family events to at least distribute a box of food at the exit of the hall that we can source economically. TCA should take the lead of Chandler Arts and allow Family sponsored event a different option to bring their own catering but distribute the food only on exit so premises are as clean as it is now.*
- ◆ *..... was fabulous to work with great service and quality food. was not flexible in style of service or beverage items offered.*

Performing Arts:

- ✦ Seventy-two percent (72%) of survey respondents would like to see an increase in the number and variety of performance events.

Additional Services:

- ✦ A total of 42% of survey respondents would like to see a restaurant or coffee shop added to the TCA. A coffee shop or restaurant could potentially generate additional revenue for the TCA and for patrons to enjoy the TCA before and/or after an event.
- ✦ Numerous respondents recommended providing outdoor seating. For example, this comment was provided:
 - ◆ *Would like it to be a place where we could go for a casual meal and enjoy the view of the water, perhaps take in a theater performance. We go to performances several times a year. We would go to the facility just to hang out if there were more food/seating options.*

Facility Size:

- ✦ Survey participants' unedited comments related to the TCA facility size include:
 - ◆ *The access to seating was a bit awkward. There is not much room to walk when people are sitting and if you enter on the wrong side you can't easily get to the other side!*
 - ◆ *The building was poorly designed. It made no sense to spend all that money and end up with such a small venue. The room where the comedy acts are held was poorly designed.*
 - ◆ *More outdoor seating.*
 - ◆ *Nice theater, not too big. Easy to get in & out. Can see stage OK.*

- ◆ *The facility is extraordinary and really creates just an incredible atmosphere for being there...*
- ◆ *Beautiful setting for any number of occasions.*
- ◆ *I wish you had bigger venue spaces*

Marketing and Visibility:

- ✦ Survey participants' unedited comments related to the visibility of the TCA facility include:
 - ◆ *Best kept secret in the Valley. Get the word out more.*
 - ◆ *Needs more visibility.*
 - ◆ *Get the word out about what you offer.*
 - ◆ *Advertise venues more, especially to Tempe area high school alumni who are always looking for new venues for quarterly mixers & class reunions.*
- ✦ Thirty-two percent (32%) of survey participants heard about a TCA event from a "Friend/Family Member". Word of mouth is currently the largest avenue for informing the public.
- ✦ The surveys identified the TCA website as a source for identifying events only 17% of the times. This may represent an underutilized, low-cost method for advertising the TCA events.
- ✦ There appears to be untapped opportunities to generate additional rental revenues from potential customers in the Valley; for example, less than 3% of rental survey participants originated from the West Valley.

Recommendations

2.1 The TCA should review the survey responses in detail to expand on what they are successful doing and develop a plan to address areas where patrons report shortcomings, wherever possible.

2.2 The TCA should develop and implement a process to periodically

survey ticketed patrons and rental clients. Survey results can then be used by the TCA facility management as a tool for addressing training opportunities for staff and customer concerns, enhancing operations, developing new streams of revenue, and/or increasing current operating revenue.

Management Responses

2.1 *TCA facility management will review survey responses with pertinent staff and begin development of corrective action plans, as feasible, immediately.*

2.2 *TCA management and staff agree with the importance of customer feedback*

and will modify current intermittent survey scheduling with a structured and targeted quarterly feedback process to gather input from ticket purchasers, rental clients and general visitors beginning April 2015.

Section 2 – Operational & Financial Sustainability

The question of operational and financial sustainability is a challenge that many arts organizations continually face, including the TCA. Many arts organizations experience difficulties due to the built-in economic problems in the industry. Costs continue to increase, but there are limitations on ticket sales. Once a theater space has been established, there are only so many seats to sell for a given performance. For performing arts centers, there is limited ability to increase earned revenues as most patrons are price point sensitive. Facility rental revenues are also bound by space and price sensitivity of clients. The gap

continues to widen between increasing expenditures and relatively static earned revenues. In addition, attempts to increase contribution levels from private sources have also become more difficult due to the availability of, and competition for, these funds. This section looks at the TCA's mission and vision, existing funding, organizational structure, and opportunities to enhance revenues from the perspective of sustainability.

We acknowledge that Community Services/TCA facility management and staff have made important strides in the

development of an overall municipal arts plan for the City. As the audit began, a Request for Proposal (RFP) was issued to identify a qualified vendor for this project. A vendor was selected and initial meetings

were held in December 2014. This is an important component of setting a direction for the TCA's future and addressing sustainability.

3. Identification of a Niche Market is Essential to Securing a Clear Mission and Vision for the TCA.

The TCA has not clearly identified a niche market. Lack of a identified niche market contributes to an ill-defined mission and a floundering vision for an organization. Feedback from other arts organizations indicates that some are not sure what the TCA's niche is. The arts industry in the Valley is very competitive. There are numerous arts centers as well as casinos that all compete for the same entertainment dollars. Niche markets offer opportunities for organizations to compete for these dollars and are particularly helpful for operations looking to grow or change.

The TCA's most recently developed mission statement is as follows:

To Celebrate Diverse Arts Experiences

A mission statement is vital to the success of an organization as a whole. It can unify an organization and take it to new heights. The Arts demand unique, passionate, articulate, and focused statements that define why the organization does what it does and why it exists. The TCA's current mission statement is too vague to meet these criteria. At a minimum, a mission statement should define who your primary customers are, identify the services you provide, and describe the geographical location in which you operate.

The TCA also has no articulated vision statement. The TCA identified sixteen (16) goals in 2013 based on 'vision elements,' but they do not have a clearly articulated vision statement. The critical part of identifying its vision was not formulated. Goals without correlation to mission and vision are arbitrary. A vision statement states a clear goal for the future and should contain elements that distinguish it from other similar entities and clearly state the area or areas in which it wants to make its mark. Vision statements should contain a quantified indicator of success; it should clearly state how the organization will determine that it has successfully carried out its vision. Indicators of success can be distinct, such as "top 10" or they can be more broadly defined, such as "highly-ranked," or "world-renowned." Effective vision statements should paint a vivid picture, describe a bright future and offer realistic ambitions. A clear vision can focus, direct, motivate, unify and move an organization towards superior performance.

The TCA is still pursuing its goals. But the goals are not based on any stated vision. They are based on an unanswered question of "What does the ideal Center for the Arts look like five (5) years from now?" The vision must be clear before goals can be established to work towards meeting their vision. Otherwise, goals are arbitrary and

may not effectively work towards moving the TCA in a direction where it can be successful.

The question “What purpose do you think it (TCA) should serve??” was asked in Internal Audit’s survey of rental customers and patrons. Some of the responses follow:

- ✦ *A community building center that sustains arts and culture within not just the walls of the building but within the entire community, its schools, churches and many service organizations.*

- ✦ *TCA should serve as a hub for fine arts in Tempe. It can and should support Tempe-based community ensembles and community events, but it should also be a place where Tempe residents can find professional-quality special events.*
- ✦ *Continue to be a HUB for live, local music, comedy and art, as well as bringing in big name acts to this more intimate setting.*
- ✦ *Continue serving the music and Arts community as a showcase for local and national artists.*

Recommendations

3.1 A niche market should be developed for the TCA. The process involves: identification of an underserved market, development of programming/product to serve that market, and then make it available and desirable to the public.

3.2 Once a niche market has been identified, the next step is for the TCA to establish a clear mission and vision – something that uniquely identifies the Center and its niche in the market. The TCA’s vision should be for the future that it wants to create for the community it wants to impact. Goals should then be aligned with the mission and vision. The TCA should stay the course with its vision and mission in

order for it to be realized. It can take years to grow into a successful center. Constant changes to vision/mission or the absence of a strong direction and development of its niche will likely keep the TCA floundering; continuously searching for its identity.

3.3 Once a clear mission and vision have been established for the TCA, share it with employees, the community and the public at large. Celebrate with enthusiasm. A periodic review will also help ensure the mission and vision remain relevant and that goals are effectively facilitating their realization as the TCA evolves.

Management Response

3.1-3.3 *The City is currently working with the Cultural Planning Group to develop the Tempe Arts Plan, a broad and long-range arts and culture plan for the community, led by the Community Services*

Department. Exploration of the TCA’s position, purpose, vision and mission within the community is a key component of this process.

Upon completion of the Tempe Arts Plan, anticipated for July 2015, and approval by City Council, TCA management should be able to present a clear mission and vision accompanied by achievable goals and an associated timeline. Management and staff will make plans to celebrate the new mission and vision with the public during the annual Fall Arts Preview event at the TCA, typically scheduled in August

of each year. Additionally, staff anticipates that the Tempe Arts Plan results will recommend a signature event to celebrate a new direction for the arts in Tempe. The TCA will be a focal point in this celebratory event.

TCA management will establish an annual review of the TCA mission, vision and associated goals in August of each year to coincide with the start of the new event season.



4. The Organizational Structure of the TCA Calls for Reassessment.

The TCA's current organizational structure is that of a municipal arts agency of the City of Tempe. With this type of organizational structure, the main source of revenue is typically from local government support, as is with the case of the TCA. The City of Tempe owns and operates the facility. Approximately 66% of the total operating costs of the TCA (not including debt servicing costs) are provided by the City's dedicated sales tax.

Some examples of other various structures noted through discussion and research of other arts organizations include the following:

- ✦ The City maintains the facility, but operations and programming are contracted out to a Management Group with expertise in the arts.
- ✦ Partnerships with School Districts.
- ✦ Partnerships with 501(c)(3) foundations to govern operations, fundraising, and programming.

- ✦ The City maintains the facility, but operations and programming services are contracted out to a private non-profit organization with expertise in the arts.
- ✦ Partnerships with both School Districts and 501(c)(3) foundations with shared responsibilities for cost sharing, fundraising and programming.

Financial exposure for a City can be limited to facility preservation and operating costs in some of the above examples. Other structures provide opportunities to tap into invaluable expertise in the arts industry.

The TCA does produce some performances. The majority of their productions are at no charge to patrons. They have had some success in co-producing some productions and events. They have recently entered into a contractual agreement with an

entertainment consulting firm to perform the following:

- ✦ Research performances,
- ✦ Communicate with artist agents (in consultation with the TCA),
- ✦ Develop season performance schedules,
- ✦ Identify 8-10 diverse entertainment acts per performance season,
- ✦ Consult with and provide guidance to the TCA staff regarding: season budget development, ticket pricing structures, marketing approach, direction and effective timing, and potential sponsorship opportunities.

The TCA has engaged in this contract for bringing entertainment acts to the TCA without a clear vision on whether or not it should produce performances, what its niche market is, and what the community wants.

Recommendation

- 4.1** A determination should be made as to the optimal organizational structure for the TCA to fulfill a newly established mission and vision for the entity. The question of whether or not the City is the best choice and has adequate expertise to develop and manage a

successful arts center should be addressed. A determination of sourcing for the production of performances also needs to be considered: in-house, co-productions, reliance on outside productions or a combination of the above.

Management Response

- 4.1** *The City anticipates addressing this recommendation with the development of the Tempe Arts Plan, anticipated to*

be complete in July 2015 and approved by City Council thereafter.

5. A Plan is Needed to Address the Expiration of the Performing Arts Tax.

When the Performing Arts fund was established, the intention was to set money aside to pay for operations, in addition to debt servicing and repayment. Per the February 2, 2012 Issue Review Session notes, a portion of the tax proceeds were to be set aside in an endowment to fill an anticipated gap between revenues and expenditures to operate the TCA. This endowment was never created as the funds were used for capital expenses.

As previously mentioned, upon expiration of the tax in FY2020/21, the Performing Arts Fund is expected to be in a deficit position and the fund balance will be exhausted by FY2023/24, three years after the tax expires. No formal plan has been developed to deal with the financial status of the Performing Arts Fund once the tax is set to expire. There is less than seven (7) years remaining until the tax expiration.

Options to address the tax expiration

include pursuing the tax to continue at the current or alternate rate or allow it to expire.

Internal Audit requested the city's Budget Office to estimate the tax rate that would be needed to cover 100%, 75%, and 50% of TCA's projected net operating loss at the time of the tax expiration should a decision be made to pursue the extension of the tax. It is important to note that these estimated rates are based on projections and can be impacted by the state of the economy between now and the tax expiration date. The results of the projections are as follows:

Portion of Projected Operating Deficit Covered	Estimated Tax Rate Needed
100%	.0315%
75%	.0236%
50%	.0158%

Note: The current rate is .1%; projected tax rates are based on the anticipated operating loss for FY2021-22. Future operating losses beyond FY2021-22 may or may not be similar amounts.

Recommendation

5.1 Once the TCA's niche market, mission, vision, and organizational structure have been determined, a needs assessment and strategic plan is essential to ascertain how gaps between

revenues and expenditures will be filled. A formal plan should be developed that includes options without the tax, or possibly going to voters for a full or partial tax extension.

Management Response

5.1 *The City anticipates addressing these concerns, as well as options to address the impending sunset of the performing arts tax, with the recommendations of*

the Tempe Arts Plan, anticipated to be complete in July 2015, and approved by City Council thereafter.

6. The TCA should be Celebrated Through Marketing Efforts.

Arts marketing involves the objectives of bringing the arts and audiences together, and increasing revenues to fulfill an organization's mission, vision, and goals. With regards to marketing, Michael M. Kaiser, President of the John F. Kennedy Center for the Performing Arts, and author of *The Art of the Turnaround – Creating and Maintaining Healthy Arts Organizations*, states that “while it is crucial for arts organizations to develop important new artistic and/or educational programs, it is also vital that these programs be marketed in sophisticated and creative ways. Most arts organizations conduct programmatic marketing, which is essential to building earned income, but few spend time or effort conducting institutional marketing. This type of marketing gets people excited about arts centers.”

Programmatic marketing promotes individual events, performances, and various individual programs offered by an organization; institutional marketing refers to activities designed to promote the institution itself. A programmatic marketing campaign is limited in its abilities and scope because it lives in a finite period, whereas institutional campaigns pay dividends in both earned and contributed revenue as they help brand the institution and sell the vision. In addition to selling tickets, institutional marketing can help to increase contributions and can play a central role in the turnaround efforts of arts centers.

The TCA currently markets through electronic patron list serves, its website, social media, flyers, brochures, magazines, local newspapers, and radio stations (for specific programming). Expenditures have

been minimal over the past five years ranging from \$193 to \$18,946 as follows:

FY	Expenditure
2010	\$3,909
2011	193
2012	3,032
2013	18,946
2014	15,594

TCA currently does not measure their Return On Investment (ROI) of advertising or marketing investments; therefore, TCA facility management cannot determine if the advertising is properly targeting audiences that will actually purchase tickets or rent space.

The 2014 Internal Audit survey of TCA patrons revealed that the following methods used kept patrons informed about the TCA events:

Source	Percentage
City of Tempe Website	11%
Flyer	8%
Friend/Family Member	30%
Magazine/Other Advertisement	12%
TCA Website	17%
*Other	22%
Total	100%

A systematic plan to market the TCA facility, and all the offerings and opportunities available is not currently in place. To engage the community in the arts, the TCA must ensure that the TCA's mission and vision, the facility, opportunities, events, and programs are effectively marketed.

A good marketing plan requires an understanding of “where” customers are located and how to reach them. Without effective marketing research and analysis, it is difficult to develop a productive marketing plan. An understanding of where customers live and travel from to visit the TCA can facilitate focused promotional efforts. The TCA’s TicketForce system has sufficient information on customers/patrons to develop marketing plans and customer profiles. However, the TCA has not utilized this information to develop and implement a comprehensive marketing plan. As an example of research and analysis, Internal Audit gathered all available ticket sales data since the opening of the TCA (TicketForce has been in use since opening). Through collaboration and help of the City’s GIS support services, we produced a map based on tickets sold by zip code for the US. The map identifies key feeder cities and states for the TCA. As expected, Arizona has a high volume of ticket purchases, but

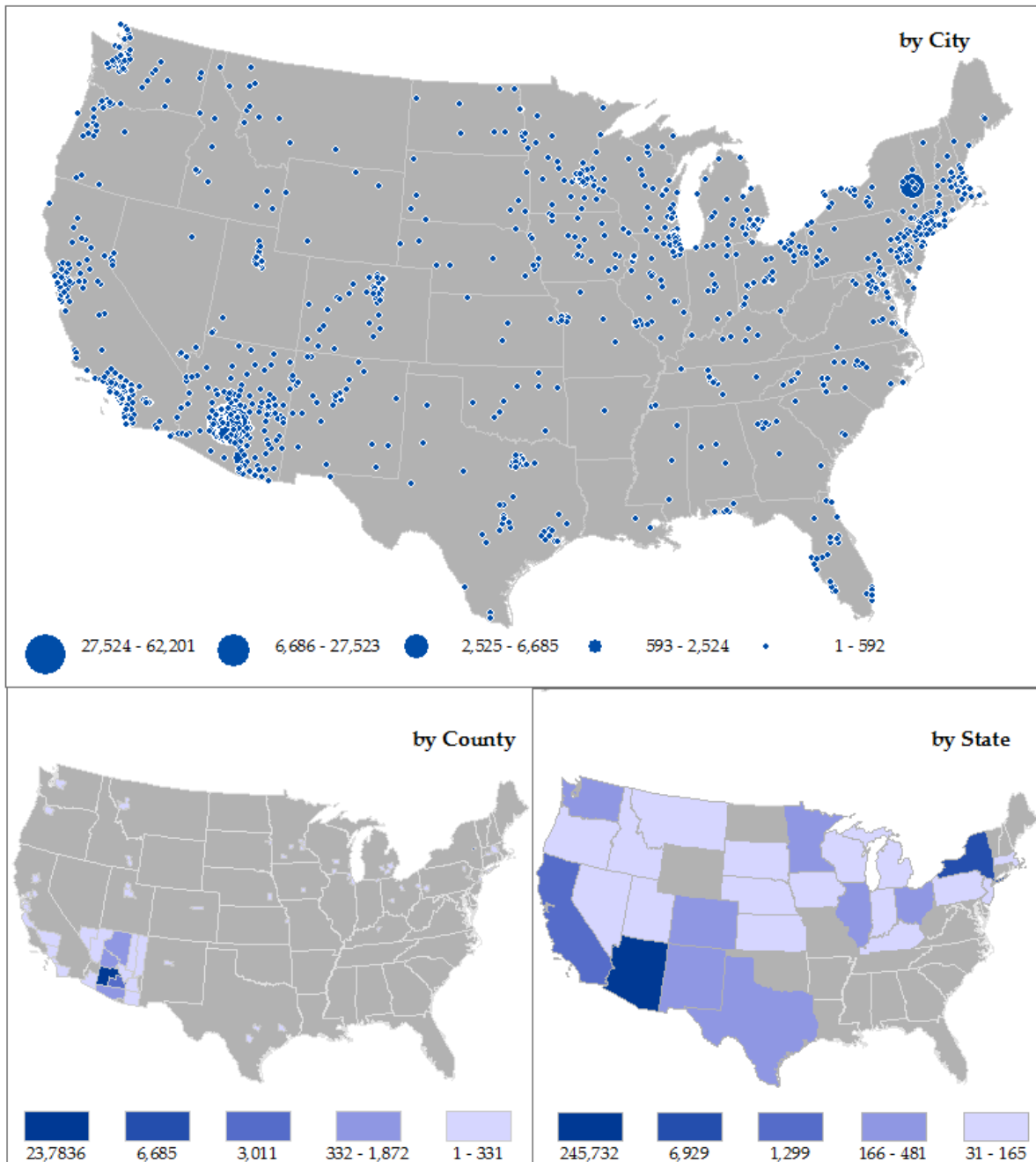
unexpectedly the feeder city of Schenectady, New York also has a high-ticket purchase volume.

All available ticket purchase data by zip code was acquired from the TicketForce system. Due to invalid zip code data some records could not be utilized (102,892). Sufficient records (258,746) remained for analysis. The end product was a mapping of all the tickets purchased for performances at the TCA by zip code from inception date September, 2007 to October 15, 2014. Arizona ticket sales totaled 245,732 or 95% of all the ticket sales. TCA indicated that to avoid marketing mail, some patrons used the Zip 12345, which is assigned to General Electric in Schenectady, New York and may have skewed the analysis and map of customer location. The following table illustrates the top 10 Arizona Cities/Towns with the highest sales (87% of Arizona sales):

1	Phoenix	61,391
2	Tempe	40,139
3	Scottsdale	38,494
4	Chandler	23,781
5	Mesa	22,372
6	Gilbert	11,316
7	Glendale	5,790
8	Paradise Valley	4,664
9	Peoria	3,825
10	Cave Creek	2,524
	Total	214,296

A nationwide map of ticket sales from September 2007 to October 15, 2014 follows on the next page of this report.

Tempe Center for the Arts - Ticket Purchases *September 2007 to October 15, 2014*



Created SD: 12/11/2014

Recommendations

- 6.1** The TCA should develop a creative and systematic marketing program focused on both programmatic and institutional perspectives. The marketing program should support the mission and vision of the TCA. The return on investment (ROI) should also be measured for all significant advertising and marketing efforts.
- 6.2** TCA should identify where patrons of the TCA reside geographically utilizing existing resources to target specific areas. This serves two purposes:
1. Determination of what areas most frequent the TCA, and
 2. Determination of what markets are potentially untapped. This information can serve as a guide for more effective targeted marketing by geographic area.
- 6.3** Suggestions to evolve the marketing program and increase institutional visibility of the TCA include the following:
- ✦ Develop a captive marketing brochure.
 - ✦ Collaborate with Chamber of Commerce, and/or visitors' bureaus to build a strong relationship between tourism in Tempe and the TCA.
 - ✦ Include brochures in the City's monthly water billings
 - ✦ Buy inexpensive poster frames and ask local businesses with public traffic to hang your posters in their waiting areas.
 - ✦ Design theater coupons as bookmarks and distribute in area libraries, bookstores, and schools.
 - ✦ Ask area hotels, realtors, and restaurants to display brochures in the racks in their public areas.
 - ✦ Visit with local Kiwanis, Rotary, YMCA, and other service clubs and encourage them to book an annual theatre party at TCA.
 - ✦ Freeway signage from the Loop 202.
 - ✦ Light Rail advertising.
 - ✦ City building advertising.
 - ✦ Independent robust website and social media.
 - ✦ Holiday promotion for gifts.
 - ✦ 'Groupon' or other similar program offerings.
 - ✦ Gift certificate promotions.
 - ✦ Cyber Monday Offers.
 - ✦ Exclusive presales for 'members.'
 - ✦ Acquire and retain season subscribers – discounts on order fees, prizes, VIP access to pre-sale tickets (expand on current flex pass option).
 - ✦ Electronic Newsletter.
 - ✦ Advertise group or bundle discounts and special packages.
 - ✦ Special gala performances.
 - ✦ Unusual exhibitions and lectures.
 - ✦ The use of celebrities.
 - ✦ Appearances on television and radio programs.
 - ✦ Stories in major print outlets.
 - ✦ Involvement in high visibility public functions.

Management Response

6.1-6.3 A marketing and public relations officer dedicated to the TCA was hired in January 2015. This individual is charged with creating a comprehensive marketing plan to address items such as branding, program visibility, demographic

reach/diversity and institutional exposure. In addition, this staff member will carry out direction from a strategic plan, goals of the Tempe Arts Plan and marketing recommendations of the internal audit report.



7. TCA Has Many Opportunities to Enhance Revenues.

The audit of the TCA identified many opportunities for potential increased cost recovery and/or revenue enhancement to contribute to the sustainability of the TCA

and reduce the degree of reliance on City of Tempe contributed funding. The following identifies these potential areas:

A. Facility Rental Rates

Space rental rates have not increased since the TCA opened in 2007. TCA facility management has not performed an analysis to determine how TCA's rates compare to current prevailing market rates for the Valley. No policy or process has been established to assess the adequacy of rates or

compare with other venues in the Valley on a regular basis. Without reassessment of the rental rates, facility rental revenues may not be generated at market rate, resulting in lost opportunities to increase earned income.

Internal Audit compared facility space rental rates of the TCA to five (5) major arts centers in the Valley. ***Comparisons were based on the rate per seat per day.*** We found that Tempe’s facility rental rates (non-

profit and commercial) are 14%-50% *below* the average of similar local venues. Tempe offers an even lower “partner” rate that no other local venue surveyed offers. The details of the rate comparison follow:

	Partner Rate		Non-Profit/ Government		Commercial		Industrial	
	Large Space	Small Space	Large Space	Small Space	Large Space	Small Space	Large Space	Small Space
Tempe	\$1.50	\$1.17	\$1.80	\$1.40	\$2.25	\$1.75		
Chandler			1.79	2.04	2.38	2.71		
Mesa			2.48	3.00	3.30	4.00	\$4.01	\$5.52
Scottsdale			1.52	2.19	\$1.76	3.65		
Herberger			2.56	2.82	3.02	3.88		
Phoenix Theater*			2.65	3.38	2.65	3.38		
Average of other venues			\$2.20	\$2.68	\$2.62	\$ 3.52		
Tempe’s % below average			18%	48%	14%	50%		

**One rate for all classifications*

Note: Gilbert (Higley) was not included as they charge a per hour rate, rather than a per day rate

The above table illustrates that rental rates are significantly below other venues in the Valley. Results of the TCA Survey of Rental Customers (Appendix III) indicate

that 88% of respondents were either satisfied or very satisfied with venue rental rates; 98% were either satisfied or very satisfied with the venue accommodations.

Recommendation

7.1 TCA facility management should consider raising their facility rental rates towards the prevailing market, but still remain competitive. In addition, management should develop a process

to routinely perform a comparable analysis of other arts centers in the Valley to ensure they are competitive and within prevailing market venue rates and adjust their rates accordingly.

Management Response

7.1 *TCA management is currently in the process of assessing rental rates and will continue to analyze the market on a routine basis with the goal of*

recommending appropriate rate adjustments for approval by City Council.

B. TCA-Managed Events

Many TCA-managed regular programs are free to patrons and tend to not break even financially. Community Services management has been reluctant to pursue large scale events or concerts due to results of cost analyses that show ticket prices would have to be extremely high to cover costs. For example, there is reluctance to attempt a production for high scale talent such as Nora Jones or the Moody Blues because they estimate a charge of \$225 per ticket to break even at 85% projected capacity. TCA has experienced some success recently partnering with others and with a consulting firm to bring in productions. There are indications that the constricting size of the theater is prohibitive to bringing in many of the big-name acts. For these reasons there is reluctance to pursue larger events due to the risk of losing even more money.

As discussed in audit observation #6 (marketing), the TCA has engaged in a contract for bringing entertainment acts to the TCA, but they have done so without a clear vision on whether or not they should

produce performances, what their niche market is, and what the community wants. Internal Audit's patron survey showed that 72% the TCA patrons would like to see more performances. Some responses from the survey included:

- ✦ *More mainstream....Debbie Reynolds, Gabby Gifford..like other communities are doing.*
- ✦ *More national touring theatrical productions.*
- ✦ *I think that there may be a market for more popular smaller ensembles (Boston Brass, etc.) and maybe comedy shows such as Capitol Steps or other medium-draw.*

Patron survey results also indicated that 39% of respondents are willing to pay \$26.00-\$40.00 per ticket for entertainment at the TCA and 38% are willing to pay over \$40 per ticket.

The following tables provide an overview of some TCA-managed programs. Only one program, Art After Work, turns a small profit.

Free Events

The table below presents expenditure of funds to produce these TCA events, which are offered to the public free of charge.

Event	FY 2013 Funds Expended	Attendance	FY 2014 Funds Expended	Attendance
Music Under the Stars	\$12,922	1,900	\$11,818	1,900
Ballet Under the Stars	13,693	2,500	13,454	2,500
Tempe Symphony Orchestra	8,352	2,733	8,412	2,697
Tempe Poetry	1,902	186	1,948	225

Note: Funding for these events first comes from the AZ Commission for the Arts grant. Any excess costs are covered by the Municipal Arts fund. Funds expended do not include overhead costs.

Music Events with Partial Cost Recovery

Cost recovery approximated 15% in FY 2012/13 and 13% in FY 2013/14 for the TCA music productions depicted in the table below. (*Songwriter's Showcase* does get viewed on the PBS station so it does provide a marketing opportunity to approximately 250,000 viewers.)

Event	FY 2012/13		FY 2013/14	
	Attendance	Loss	Attendance	Loss
In the Spotlight	150		150	
Walk In Wednesday	3,876		4,477	
Songwriter's Showcase	560		365	
TOTAL:	4,586	(\$21,275)	4,992	(\$20,010)

Note: Funding for these events first comes from the AZ Commission for the Arts grant. Any excess costs are covered by the Municipal Arts fund. Loss does not include overhead costs.

Art After Work

This program is a monthly ticketed event held in the Gallery at the TCA. Cost recovery approximates 135% for FY2013/14 (the first year of the program). This one event does make a small profit. Total attendance was 189 patrons last fiscal year.

Event	Revenue	Expense	Profit
Art After Work	\$5,495	\$4,059	\$1,436

*Note: Attendance averages 24 patrons per event (189 over 8 events)
No grant or Municipal Arts Fund monies used.*

Recommendations

- 7.2** The TCA should assess whether or not continuing these performances fits within their mission and vision. Options can include expanding upon TCA-managed events, co-productions with partners, or only bringing in externally-produced programming.
- 7.3** Should TCA maintain these events, facility management should explore ways to turn these events to a break-even point or even turn a profit (including overhead costs) and look to

best practices at other similar centers. For large scale events, TCA facility management needs to consider the following in its cost analysis:

- Price negotiation.
- Partnering with other groups/organizations for touring artists.
- Corporate and other sponsorships to reduce costs.
- Tiered pricing -VIP levels could help with profitability.

Management Responses

7.2 *TCA management will work within the parameters of the future Tempe Arts Plan and guidance from City input to determine if continuing TCA-managed events is feasible, and if so, to what extent and cost.*

7.3 *TCA management agrees with the recommendations and currently practices many of these measures when considering entertainment options, when determining whether*

to produce events and when developing ticket pricing structures. Tiered-pricing and VIP ticketing options are explored in those instances where appropriate to the particular event and according to market feasibility. TCA management will begin development of a mechanism to fully address overhead costs associated with specific events in July 2015.

C. Donations & Grants

Since July 1, 2012, TCA has raised only \$2,309 in donations to support the Center. A contributing factor to the nominal volume of donations is the absence of a professional fundraising or marketing function through either TCA staff or contracted services.

For the past two fiscal years, TCA was awarded three small grants that mainly for community programming, educational programming, guest artists, and gallery exhibits. Grants have totaled \$20,000-\$25,000 for the past two years from Salt River Project, Friends of the TCA, and AZ Commission for the Arts. No other grants are pursued according to staff.

Several comparable cities we reviewed aligned with their foundations to successfully pursue *significant* grants from other sources including the Virginia G. Piper Trust. In addition, other cities have been able to secure corporate sponsors for productions.

The market for grants, donations, and sponsorships is difficult for municipal arts centers. This is a very competitive industry and many citizens feel like they are already supporting the arts centers through the taxes they pay.

Recommendation

7.4 TCA should seek the assistance of an in-house or contracted marketing and fundraising professional to increase donations and seek corporate sponsorships. In addition, a properly structured and robust foundation could

assist in soliciting sponsorships and donations. In order to increase the sustainability of the Center, the TCA, in conjunction with a foundation, using its 501(c)(3) status, should pursue larger grant opportunities.

Management Response

7.4 *TCA management agrees with the recommendation. Community Services leadership has worked with a TCA-related non-profit organization since establishing a memorandum of understanding with the entity in 2009. Having changed leadership several*

times since inception, the organization has been less successful in fund raising efforts than anticipated. The Tempe Arts Plan is assessing the position and viability of the entity and will present potential solutions in final recommendations.

D. Complimentary Tickets

The City is not recovering the full cost of complimentary tickets (comps) issued by clients. For FY2013-14, tickets sold through TicketForce totaled 67,262; comps included in this total were 15,308, which represents 22.8% of total ticket sales.

TCA does not receive any revenue for comp tickets, but they pay TicketForce a \$0.20 per ticket fee for each comp ticket. This \$0.20 per ticket is recovered from the production company at settlement, but does not reflect

the total costs to print and handle these tickets. After bringing this to the attention of TCA facility management, they have considered implementing a \$0.30 per ticket recovery (\$0.20 to cover the TicketForce fee and \$0.10 reimbursement for the cost of the ticket stock). Although this is a step in the right direction, \$0.30 may still not cover overhead costs incurred by the City for equipment and labor to handle, print and account for comp tickets.

Recommendation

7.5 TCA facility management should consider shifting the cost and risk of comp tickets to clients (production companies) through charging a higher

convenience fee to the production company for each comp ticket processed to recover costs associated with these ticket sales.

Management Response

7.5 *TCA management is addressing this recommendation as part of a revision of operating policies to be submitted*

for City Council approval prior to July 2015.

E. Convenience Fees

When patrons purchase tickets to events at the TCA, a per ticket convenience fee is added to the order cost. This fee helps the TCA recover costs associated with printing tickets and handling ticketing transactions.

TCA's convenience fees appear to be lower than the average for comparable centers in the Valley and do not fully cover costs of issuing tickets in some cases. TCA's fees have not been adjusted over time.

A review of convenience fees charged by other Valley cities/centers (Phoenix Theater, Herberger Theater Center, Mesa Arts Center, Chandler Center for the Arts, Scottsdale Center for the Performing Arts, and Higley Arts Center) was performed by Internal Audit. Highlights of the comparison follow:

- Three (3) of these six (6) centers charge a fee to mail tickets (fees range from \$1.00-\$3.00 per order); Tempe does not charge to mail tickets
- The maximum fees per ticket ranged from \$2.00-\$8.50, with the average being \$5.25; Tempe's maximum is \$3.00 (online orders)

- One center charges a facility restoration fee (\$1-\$2 - depending on ticket price) used solely for maintenance and capital items.
- For the two (2) centers that charge specifically for phone orders, the fee ranged from \$2.50 per ticket to \$3.50 per order; Tempe charges \$1.00 per ticket.

In addition, the convenience fee charged by TCA for in-person or phone transactions is not sufficient to cover all of the costs to produce a ticket. See the estimated costs below for a ticket purchased on the phone and mailed to the customer:

Per Ticket Convenience Fee Charged by TCA for in-person or phone order	\$1.00
Less: Cost of Ticket Stock	(0.10)
Less: Cost of Envelope Tickets are Placed in	(0.07)
Less: Per Ticket Fee Paid to TicketForce	(0.20)
Less: Postage	(0.49)
Net Revenue Per Ticket ①	\$0.14

① (Before accounting for labor and equipment cost for processing and printing the ticket)

Recommendation

- 7.6** Convenience fee rates should be reviewed by TCA facility management and consideration given to increasing

rates to align with other cities and cover the full cost of producing a ticket.

Management Response

- 7.6** TCA management is addressing this recommendation as part of a revision of operating policies to be submitted

for City Council approval prior to July 2015.

F. Childsplay

Childsplay was founded in 1977. It is an internationally-recognized theater company focusing on child audiences. Childsplay has been a partner of the TCA since its opening. Childsplay's renowned reputation was recognized by the managers of several of the local arts centers Internal Audit researched and studied.

The agreement between Childsplay and the City, entered into on June 8, 2009, has been extended (by mutual agreement) through June 30, 2016. Childsplay may exercise an option to extend the agreement through June 30, 2019 by providing the City written notice by June 30, 2015. The agreement gives Childsplay priority selection of performance dates in all TCA venues after the City establishes a listing of available dates. The City has first booking priority, followed by Childsplay, and then other partner groups and the public. The agreement also establishes Childsplay as a Tier 1 user of the facility, which means its pays the lowest published facility rental rates available at the TCA.

Childsplay has accounted for 48% of total entertainment opportunities offered by TCA in FY2012/13 and 40% in FY2013/14. Over the past five (5) fiscal years combined, Childsplay has accounted for 49% of all entertainment opportunities offered at TCA. These statistics include Childsplay's public performances and school matinees.

Childsplay is an integral partner of the TCA, with substantial usage of the facility throughout the year. It is good business practice to ensure that both parties benefit from the agreement in place and that a periodic review is performed to determine whether changes are needed as time passes.

Usage of TCA Facilities

Childsplay uses the facilities at TCA for approximately one-third (1/3) of the total available weeks for the Main Theater and Studio spaces, so the rental rate charged to Childsplay is important to the financial viability of the TCA. The following table details Childsplay's usage of the theater and studio over the past three FYs (*usage includes time to set up, performances, and tear-down*):

	FY 2011/12		FY 2012/13		FY 2013/14	
	Theater	Studio	Theater	Studio	Theater	Studio
Weeks Used by Childsplay	18	12	18	15	17	14
% of Total Weeks Available	35%	23%	35%	29%	33%	27%

Reimbursement for Personnel

Section 6 of the contractual agreement between the City and Childsplay states that if personnel beyond the normal operational staff of the TCA are required for any Childsplay production, the distribution of

cost for these personnel will be determined by mutual agreement between the City and Childsplay. The City does not seek reimbursement for 'front of the house' personnel working Childsplay performances. Front of the house staff includes ushers,

house managers, and assistant house managers. These staff are required for proper customer service and the public's safety.

The TCA facility manager states that this Section of the Agreement is interpreted to mean that the City provides front of the house staff for all Childsplay performances without reimbursement. This was decided back when the agreement was established. This and other various other advantages were given to partner organizations instrumental in the development of the TCA when they opened their doors.

Facility Management

Many Childsplay performances are held weekdays during the daytime hours. There are opportunities for TCA or other produced events to occur week nights on the very same stage. Accommodations can be made to move the Childsplay set to the back of the stage, drop a curtain, and set up a separate smaller production such as a musical act or single microphone production. TCA has already successfully put this into practice for a few events but there remains additional opportunity to expand stage usage. The contractual agreement does not address this

practice. Additional revenue producing opportunities can go unrealized without active, flexible facility management practices in place.

Cost Recovery

TCA facility management does not perform an analysis of whether the revenue received from Childsplay, the biggest user of space at the TCA, is sufficient to cover the direct costs and overhead expended to facilitate their performances (or even what portion of costs are covered).

Revenue to the City from Childsplay events has been quantified by the TCA staff; however, related expenses have not been tracked. Childsplay production revenues for the past two FYs (as reported by TCA) follow:

Category	FY 2013	FY 2014
Room Fees	\$101,475	\$102,525
Lease Tax	2,093	2,077
County Tax	455	476
Special events	3,179	2,658
Convenience Fees (Ticketing)	27,219	22,266
Total	\$134,421	\$130,002

Recommendations

7.7 The following considerations should be assessed by TCA prior to the next extension of the Childsplay agreement:

- ✦ Passing on to Childsplay the costs of front of house staff that facilitate their performances.
- ✦ Clear language to explicitly address the City's ability to use the Main Theater and Studio stages used by

Childsplay during the day for evening performances and events when Childsplay is not performing whenever moving Childsplay's set is feasible. This could open up new revenue producing spots in TCA's schedule.

7.8 TCA facility management should track expenses (direct and overhead) related

to Childsplay (and other) performances to determine the extent that related costs are recovered. If revenues are insufficient to cover costs, management

should work with Childsplay to facilitate a more equitable agreement and at minimum break even.

Management Responses

7.7 *TCA agrees with this recommendation and will work with Childsplay management to investigate an addendum to the current agreement and seek permanent revision to address these issues prior to renewal in June 2016. TCA management and staff will continue to work with Childsplay management to maximize revenue opportunities when Childsplay is occupying a performance space. In*

addition, TCA management will further clarify existing operating policy regarding shared use of such space in the revision of general operating policies to be submitted to City Council for approval prior to July 2015.

7.8 *TCA management agrees with this recommendation and will begin development of a process to track such expenses on or before April 2015.*

Section 3 –Assets and the Internal Control Environment

Internal Control

Internal control is broadly defined as a process, effected by an entity's directors, management and other personnel, that is designed to provide reasonable assurance in meeting organizational objectives. COSO (Committee of Sponsoring Organizations), identifies the following broad categories for assurance in achievement of objectives:

- ✦ Effectiveness and efficiency of operations
- ✦ Reliability of financial reporting
- ✦ Compliance with laws and regulations

The control environment has a significant influence on the effectiveness of internal controls and their ability to support achievement of objectives including:

- ◆ Safeguarding resources and using them efficiently,

- ◆ Reducing risks,
- ◆ Facilitating critical communications, and
- ◆ Monitoring progress toward objectives.

In summary, good internal controls can help an organization get where it wants to go and mitigate risks and surprises along the way.

Internal Audit's observations of the TCA point to the need for both a control conscious environment and implementation of better internal controls. Even though the primary focus of attention in arts organizations is on the customer experience; a strong control environment and strong internal controls can be effectively implemented and co-exist without interference to the customer experience.

The foundation for building a good internal control structure starts with a risk-based approach to look at the exposure of resources to potential losses.

Internal Audit observed that the following areas have a moderate level of risk due to missing, weak, or faulty internal controls:

- ◆ Cash handling,
- ◆ Accounts receivable administration,
- ◆ Inventory,
- ◆ Operating assets (especially those used to operate the theatres and put on events),
- ◆ Box office operations, etc. where liquid assets are exposed.

Another critical aspect of internal control revolves around obtaining timely, reliable information to make decisions. When internal controls work effectively, they provide valuable information where resources may be at risk. Again, resources at risk place objectives at risk. Likewise, it is imperative that information about exceptions receives escalation to the appropriate level within TCA.

This section identifies opportunities to strengthen the internal control environment at the TCA.

8. Effective Asset Management Will Reduce Associated Risks

A. Operating Assets

A detailed capital asset listing for TCA operating assets was not available at the inception of the audit. The TCA began work on developing a detailed asset list during the early phases of the audit. The listing is likely not comprehensive of all operating assets. Because the asset listing was not prepared at the opening of TCA, in some instances current prices are noted and not actual historical cost. This contributed to an inability to reconcile the TCA asset listing with the City's comprehensive list maintained by the Finance Division. The TCA does not have a local asset policy to guide the acquisition, transfer or retirement process for assets to ensure the list is accurate and current.

In addition, no plan or fund has been established to facilitate the replacement of important operating assets, which are showing signs of wear. It is important to note that 49% of TCA patrons surveyed by

Internal Audit stated they would pay a nominal service charge set aside for capital improvements. Thirty-six percent (36%) said they would pay \$1-\$2 and 30% would pay \$4-\$5.

Without an adequate asset management process at TCA, the assets used to operate the TCA may be misused, lost or misappropriated and potential rental revenue transactions lost.

Although Finance has recorded asset amounts in the appropriate fund accounts, certain operating assets do not have supporting detail available that match the subsidiary account control totals, thus creating weakness of asset internal controls. GASB 34 called for new requirements for General Capital Assets and defines capital assets as "tangible or intangible assets that are used in operations and that have initial useful lives extending *beyond a single reporting period.*" The City has a "Fixed

Asset Policy”, but the policy does not include any advice or guidelines for a “bulk purchase” of assets, as was the case for the TCA. When the bulk purchases were received at the inception of TCA a detailed asset listing was not setup. For example, the price for theatrical lighting equipment by individual unit ranges from \$179-\$624. Using a unit cost approach to determine whether to book or not book according to the Fixed Asset Policy places them below the City’s asset value threshold requirement. However, considering the nature of TCA’s

theatrical activities, the collection of lighting equipment required to operate the main theatre alone are estimated to have a \$34,000 replacement cost.

TCA’s newly prepared listing includes operating assets estimated at \$3.8 million. In comparison, the Finance Division’s capital asset listing has \$56,006 (with a net book value of \$23,336) recorded for TCA assets. This represents a significant variance.

Recommendations

- 8.1** TCA should work with the City’s Finance Division to reconcile the significant variance between TCA’s physical asset listing and the City’s recorded asset listing.
- 8.2** TCA should continue to document assets with enough detail so the asset is identifiable by location and revenue produced from usage. The listing requires regular updating with new assets and removal of items taken out of service or sold for salvage. TCA should establish a tracking and transfer process for assets moved from one venue to another venue for use. A process of tracking and transfer helps to safeguard assets and revenue by reducing the risk of exposure to both

assets and revenue generation from their use. The frequency of use information will further help the TCA to construct an equipment replacement plan based on usage and expected lifecycle. A capital asset custodian should be identified to manage this process.

- 8.3** TCA should explore implementing a ticket service charge and establishing a fund for future capital asset replacement.
- 8.4** TCA capital asset policies and procedures should be clearly documented and communicated to TCA facility management and staff.

Management Responses

- 8.1** *TCA management will meet with the Finance Division staff to begin resolution of this recommendation by April 2015*

- 8.2** *TCA management and staff will continue to document assets with the recommended suggestions regarding updating. Staff will begin development of a tracking and transfer process by*

March 2015. In addition, TCA management, in discussion with Community Services leadership, will determine assignment of a capital asset custodian pending staff availability by June 2015.

8.3 *TCA management agrees and will include introduction of such a fee,*

often named restoration fee or facility fee, in the revised operating policies to be submitted for City Council approval prior to July 2015.

8.4 *TCA management will arrange to meet with the appropriate city staff prior to April 2015.*

B. Accounts Receivable

A review of the accounts receivable process identified several areas where weaknesses exist with EventPro system internal controls, separation of duty practices and utilization of system capabilities.

Presently, one key individual at TCA receives payments and performs all accounts receivable functions (*see Cash Handling, Observation 10, Section D for more detail*). Within the EventPro system, this individual has the ability to adjust, void and cancel charges, invoices and payments. These are incompatible functions for one individual to perform from an internal control perspective. In addition, there is minimal management oversight for approval prior to posting these transactions and subsequent review of activity. Without adequate separation of duty, accounts receivable may be misstated, misappropriated or revenue lost.

When staffing is minimal, which limits adequate separation of duty, a compensating

control can be management oversight to help reduce potential risk of compromised transactions.

Additionally, good separation of duty and assignment of system rights (ability to perform specific tasks) play key roles to strengthen internal controls. With understanding of roles, system rights and separation of duty practices the TCA can define better compensating controls or take appropriate action to reduce risks.

The EventPro system has enhanced capabilities to administer accounts receivable, invoicing and payment, but presently those capabilities are under-utilized and no interface exists to exchange this information with PeopleSoft. Detail for deposits (future business bookings) and balances due run through clearing accounts with City of Tempe accounting creating inefficiency and duplication of effort.

Recommendations

8.5 The TCA should review the function of accounts receivable and system access rights and evaluate for separation of duty. Management approval should be obtained prior to posting any adjustments, voids or cancellations that directly affect the TCA's revenue. Alternatively, a report could be generated routinely and reviewed by management that details voids, adjustments and cancellations to confirm that approvals support the transactions posted.

8.6 When payments on account are received, someone independent of accounting functions (especially accounts receivable) should open all mail, separate out checks and prepare a check log. The person preparing the check log should prepare a deposit and store it in the main safe for pickup by armored courier along with other bank

deposits. After accounts receivable posts the payment, the deposit should be compared to the postings to confirm they match.

8.7 TCA should expand and utilize the capacity of EventPro to administer customer accounts receivable (invoicing) and mapping to PeopleSoft. This will serve to streamline the accounts receivable process and serve to enhance overall efficiency and effectiveness. The EventPro system has capabilities to record payment type, cost center, account code and department code along with exporting the data to potentially interface with PeopleSoft. This will require additional training of TCA staff to use the financial module of EventPro including proper setup for this process.

Management Responses

8.5 *TCA management agrees with this recommendation and has begun a review of the suggested functions. Development of an adjustment approval and tracking process will be started immediately.*

8.6 *TCA management agrees with this recommendation and has implemented procedures to accept, log and deposit incoming payments and to track*

deposits within the city's PeopleSoft Financials program.

8.7 *TCA management will work with the city's Information Technology Department to explore expanded accounting capabilities of the EventPro system and the potential for interfacing with PeopleSoft financials by May 2015.*

C. Fixed Art

The initial construction of the TCA affixed various works of art within the actual building structure. The City's capital asset ledger records (based upon information provided by Accounting) indicated initially that original cost of TCA's fixed art was \$338,000, but amounts actually disbursed total \$475,245, a discrepancy of \$137,245. Upon further enquiry with Accounting, additional information provided

documentation that totaled \$994,232 of fixed art assets capitalized for the TCA.

Based upon information provided by the TCA, fixed art (including outside funding) totals \$1,078,000. There remains a discrepancy of \$83,768, indicating that the current asset ledgers do not match the actual fixed art investment for TCA.

Recommendation

8.8 Finance should further review the original recording of actual costs and payments for fixed art from all sources for accuracy and completeness. The reconciliation should include detailed transactions, reference to supporting information that clearly establishes an

audit trail, and a sub-ledger that supports the fixed art assets allocated to the TCA matched to funding sources. Adjustments or transfers to the capital asset ledger should be made as determined appropriate.

Management Response

TCA

TCA management will make itself available to work with city Financial Services staff to accomplish the above recommendation.

Finance

Finance will work with the TCA to investigate the underlying variance and implement corrective action if deemed necessary.

D. Inventory

TCA staff provided Internal Audit with summaries of their inventory on hand, which totaled \$21,201 (e.g., theatrical supplies-\$2,811, gallery supplies-\$6,409, and maintenance supplies-\$7000, office supplies-\$319, front of house supplies-

\$3,522, and box office supplies-\$1,140) Although these inventories are not of significant value, access to some inventories is not restricted placing them at risk for loss. A perpetual inventory can help to better control these resources.

Recommendation

8.9 TCA should restrict access to supplies inventories to only those employees that need them in the course of their responsibilities. A well-maintained perpetual inventory system, managed

by an individual that does not have or need access these inventories should be established for better control.

Management Response

8.9 *TCA facility management will immediately review restricting access within the parameters of an active working facility and explore the*

feasibility of assigning staff in individual areas of operation to act as inventory monitors.

E. Art on Loan

The TCA often displays artists' works in its gallery. If art is sold, the TCA receives a commission on the sale. The TCA takes responsibility and assumes liability for Art on Loan that is displayed by artists at the Center. The TCA and City are liable for any damage or destruction while the art is on the

premises. Existing Art on Loan agreements do not require Artists to provide proof of insurance. This is not consistent with City practice that requires third parties to have insurance with the City noted as an additional insured on the policy evidenced by a certificate of insurance.

Recommendation

8.10 Art on Loan agreements should include an insurance requirement and specify the need for the artist/owner to name the City as an additional insured

on the policy for the period of the loan. A certificate of insurance should be provided the City and the TCA prior to display of artists' works.

Management Response

8.10 *TCA staff is currently revisiting this policy and seeking guidance from Risk Management and the City Attorney's*

Office. Staff will investigate standard practice in other galleries in the Valley.

F. Policies and Procedures

The TCA does not have a comprehensive current policy and procedure manual to guide and administer consistent and effective operating processes.

A comprehensive policy and procedure guide can provide the structure to develop internal controls and to move the TCA towards its objectives through safeguarding and efficient use of resources.

An effective guide can provide consistency, establish internal control points, identify appropriate separation-of-duty, regulate control activities, stipulate how to manage exceptions, identify conditions that demand pre-approvals or post transaction review, and safeguard resources.

Recommendation

8.11 The TCA should develop a comprehensive policy and procedure manual to guide operations and ensure

elements of effective internal controls are incorporated within.

Management Response

8.11 *TCA management and staff will work to consolidate policies and procedures that are in place, but not as a collective document, by June 2015. As*

part of this process, TCA management will seek guidance from the Internal Audit Office for policies which need to be developed.

9. Implementation of Effective Access Controls, Segregation of Duty and Management Oversight Will Enhance Security over Critical Operating Systems.

Systems Access

A detailed review of user credentials in the two key systems utilized by TCA (EventPro and TicketForce) identified opportunities to strengthen internal controls. Security over these mission critical systems is not adequate to safeguard vital information and related transactions.

The TCA currently does not have formal policies and procedures to guide approval requirements for new users and what they can access, modifications to existing users' credentials or removal of terminated users. Systems access anomalies noted include:

- ◆ “Generic” logins for both systems not associated with a specific individual. Even though both systems log user

changes, generic credentials do not identify who accessed the system. This creates a risk that a generic login could be misused to create transactions or modify data without authorization. Generic logins are very difficult to control when shared passwords exist amongst several employees.

- ◆ A comparison of user logins and employee names to the City's HRMS identified that terminated employees still exist in both systems.
- ◆ In both systems, third-party (software vendors) logins exist for system support; their credentials do not contain any restrictive measures when not in use.
- ◆ TCA has also granted access to employees that do not require direct access, for example, Public Works.
- ◆ Two temporary employees using EventPro were also customers or affiliated with partners presenting a potential conflict of interest situation.
- ◆ Customers outside the TCA can initiate their own TicketForce accounts. Internal

Audit identified duplicate records for a particular customer.

Segregation of Duties

Incompatible functions are not adequately segregated within both the EventPro and TicketForce systems, which presents a significant risk for errors and abuse.

Examples include:

- ◆ One individual has the ability to create events, post charges, post payments, void transactions (both charges and payments), void invoices and cancel events.
- ◆ Users' functions such as voids, adjustments and cancellations are not limited or adequately restricted to ensure these duties are compatible with other functions.

Audit Trail/Logs

The two key systems contain logs that record all activities by user, date and time, and changes. However, TCA does not review the logs or evaluate them as part of the system control process.

Recommendations

9.1 TCA should establish a formal policy that addresses adding, modifying and terminating user privileges. The policy should also include provision for periodic management review of user logs for any irregularities or discrepancies.

9.2 TCA should establish a process to grant third parties access as needed as opposed to leaving their credentials open at all times.

9.3 TCA should routinely review users, including customers that set up accounts on TicketForce, to identify and address any potential security or data integrity concerns.

9.4 Functional access controls should be incorporated within both systems to ensure adequate segregation of incompatible functions. One individual should not have the ability to create events, post charges, post payments, void transactions (both

charges and payments), void invoices and cancel events.

- 9.5** TCA facility management should periodically review and evaluate system logs for irregularities as part of the system control process.

- 9.6** The City should also consider expanding the existing policy of required disclosure to include temporary employees so that any potential conflict of interest can be addressed and appropriate job roles and system access is limited to avoid any improper disclosure of TCA competitive data.

Management Responses

- 9.1** *TCA management agrees with this recommendation and will institute such policy by April 2015.*

- 9.2** *TCA management agrees with this recommendation and will institute such policy by April 2015.*

- 9.3** *TCA management has established a scheduled quarterly review of EventPro users. In addition, management and staff will consult with TicketForce staff to explore review options within the ticketing program*

with the goal of a first review by May 2015.

- 9.4** *TCA agrees with this recommendation and is exploring procedures to accomplish this with limited staff.*

- 9.5** *TCA agrees with this recommendation and has instituted a schedule of quarterly review of logs.*

- 9.6** *TCA management will confer with Community Services and Human Resources leadership to address this recommendation.*

Section 4 –Existing Revenues and Expenditures

Existing Revenues

TCA facility management reported the average use of the TCA for FY2008/09 to FY2012/13 was 60% arts use and 40% social/business use. Revenues from social/business made up about 47% of all revenues and increased to approximately 50% of all revenues in FY 2012/13 (*though only 40% of actual use of the facility.*) The following table represents the number of performance events at the TCA by category:

Performance Events by Category				
	FY 2013	%	FY 2014	%
Theater	105	36%	125	35%
Comedy	54	19%	97	27%
Concert	66	23%	65	18%
Dance	32	11%	36	10%
Other	34	12%	39	11%
Total	291	100%	362	100%

Note: Some events may appear in more than one category

Self-Sufficiency Rates

The International Association of Venue Managers (IAVM) represents public assembly venues from around the globe including auditoriums, arenas, and performing arts centers. Its mission is “to educate, advocate for, and inspire public assembly venue professionals.” The IAVM produced a benchmark report in 2012 titled “IAVM 2012 Operating Revenue Survey.” In this report, the IAVM calculated the level of self-sufficiency for venues (operating revenue divided by operating expenses).

TCA’s self-sufficiency rate is below its peer group according to the study’s benchmark data. TCA’s self-sufficiency rate was 32% vs. 65% for other small venues in the study. TCA facility management contends that there are factors that impact its recovery rate as compared to the peer group:

- ◆ The average square footage of the peer venues was 58,362 vs. 88,000 at TCA*

- ◆ TCA exceeded the average number of performances of the peer group by 127%*

**These figures were provided by TCA and were not audited.*

In order to enhance sustainability, TCA facility management should find solutions to increase their self-sufficiency rate. The value of performances and events that lose money should be analyzed and weighed against benefits derived to determine whether benefits are worth the costs. A determination should also be made as to what it will take to either break even or turn a profit on performances and events or whether they should discontinue them. Observations #10 and #11 below identify opportunities to increase revenue and decrease expenditures which will help increase TCA’s self-sufficiency rate.

10. Effective Internal Controls Over Operating Revenues will Provide Assurance that Revenues are Accurate and Complete..

In addition to the opportunities discussed in the previous section of this report to enhance revenues, we have also identified where internal controls could be enhanced over *existing* revenue streams and positively impact operations. Policies, procedures and internal controls related over operating revenues need to be strengthened to ensure all revenue due is collected and secured.

The areas identified include:

- A. Commission revenue
- B. Merchandise sales
- C. Ticket sales revenue
- D. Facility rental (non-ticketed) revenue
- E. Discounts

A. Commission Revenue

Catering

A Request For Proposal (RFP) for catering services was issued in late 2012 to establish a catering contract for January 2013-January 2015. The RFP stated specific commission percentages and annual listing fees that catering vendors are required to pay the City. The fees and rates identified in the RFP are as follows:

Category	Annual Listing Fee	Commission Percentage
Large Scale - Full Service (Food & Bev)	\$3,500	14%
Small Scale - Limited Service (Food & Bev)	\$1,500	14%
Concession Sales & Licensed Bev (Alcohol)	\$3,500	5% concession 14% Licensed Beverage

Four (4) vendors were awarded contracts for the large scale services, two (2) for small scale services and one (1) for concession sales and licensed beverage. Annual catering revenue (including the annual listing fees) for the past two FYs follows:

FY 2012/13 \$148,690
FY 2013/14 \$ 83,403

Per TCA facility management, the reduction in catering revenue is attributed to the lower catering commission rates effective January 2013 (prior commission rates were 21-35%) and a reduction in the number of catered events. Management has stated that it studied other venues' catering commission rates prior to the 2012 RFP and it intentionally set the commission rate low to encourage more vendors to bid. These rates are substantially lower than the rates offered

at other Arts Centers we studied, which typically average 20%.

EventPro Catering Reconciliation

TCA staff does not reconcile catered events that are entered into and managed in the EventPro system to the catering payments received from vendors; therefore, there is no assurance that all catering commission payments due are actually received. Internal Audit compared all catered events identified in EventPro to commission payments received from June 2013-July 2014 and found the City was due nearly \$3,000 from two vendors for five events held at the TCA. These commission payments were never received. Upon notification by Internal Audit regarding this issue, TCA did collect the outstanding amounts due.

Annual Listing Fees

The catering contracts require each of the four catering vendors to pay an annual listing fee (ALF) of \$3,500-\$5,000, depending on the category of catering performed, to be listed as a TCA caterer. There is no established due date for the annual listing fee in the contract. For 2013, two vendors paid their ALF in March 2013, one paid in April 2013, and the other paid in July 2013. For 2014, Procurement sent out notices to the vendors requesting payments in July and ALF payments were received in July (2), September (1), and October (1). A consistent due date would allow for easier tracking of the payments to ensure completeness.

Late Catering Commission Payments

Per the catering contracts, the City requires receipt of catering commission payments by the 15th day of the month following the event. Of the twenty-three (23) months

reviewed, a total of sixty-three (63) payments were received from catering vendors. Of these sixty-three (63) payments, twenty-one (21) or 33% were received from 1 to 30 days late and eleven (11) or 17% were received over 30 days late.

Bundled Pricing

For some events, catering vendors list package pricing (i.e., wedding package) on their invoices that bundle costs for food and beverage along with rental items, set up charges, etc. When the detailed services provided are not listed on the invoices and are instead listed in total packages, it is not clear what portion is food and beverage, which is the base for the TCA's commissions. This practice has the potential

to negatively affect catering commission revenues.

The caterer is estimating what part of the package price relates to food and beverage and paying the City commission on this estimated amount. However, without a proper detailed listing of actual charges, the City cannot be certain it is receiving its full contracted catering commission.

Complimentary Catering

On occasion, catering vendors list complimentary services on their invoices. When the vendors provide complimentary services, their revenue is reduced and the City does not receive commission on these amounts. The catering contracts do not address complimentary services.

Recommendations

10.1 TCA facility management should ensure all catered events are accounted for each month including accurate and complete entry of events into the EventPro system. Invoices and subsequent commission payments should be reconciled to a report generated from EventPro of all catered events for the period. This will ensure the completeness of catering commission revenue.

10.2 If and when another RFP for catering services is issued, or if existing contracts are renewed, a due date for the annual listing fee should be included in the contracts. In the meantime, TCA facility management should work with Procurement to establish a mutually agreed upon annual due date with current vendors.

Consideration should be given to inserting penalties for late payments into any new catering RFP/agreements.

10.3 TCA facility management should address the lateness of catering commission payments with the appropriate vendors. Any subsequent catering contracts should include a provision for late charges.

10.4 To ensure the correct commission calculations, food and beverage amounts need to be detailed on the vendors' invoices and not lumped with other services. TCA facility management should contact each vendor to request that detailed charges be included rather than package

pricing totals. This issue should be addressed in any future contracts.

- 10.5** Should the current contracts be renewed or a new RFP be issued, TCA facility management should work with

Procurement to address complimentary services and develop guidelines to address the issue of the TCA not receiving commissions on these services.

Management Responses

- 10.1** *This practice was implemented beginning July 1, 2014. Catered events are monitored on a monthly basis.*

- 10.2-10.5** *TCA management has drafted an addendum to the current catering contracts to address these issues and is working with the city Procurement Office staff to include the addendum in contract renewal documents and in any future contracts for catering.*

B. Merchandise Sales

Performers/groups are permitted to sell photographs, tapes, books and other materials related to their event while it is held at the TCA. Internal Audit determined that consistent application of the commission sales practices, along with a reconciliation process, would strengthen the merchandise commission program. Two different commission arrangements related to these merchandise sales follow:

1. TCA Partner Events

When TCA partners sell merchandise, the City's commission is waived, thus providing partner organizations an advantage over others.

2. All Other Events

When TCA provides personnel to assist in product sales at other (non-partner) events, 20% of the total sales after tax is paid to the

TCA at the close of the event(s) or in final settlement. If the TCA does not assist in sales, the TCA still receives a commission of 10% of total sales. The total commission recorded by TCA was \$1,304 for FY2012/13 and \$11,189 for FY2013/14. The increase was primarily due to the commission from a piano sale (\$7,360) which was included in total merchandise commissions.

Reconciliation of Merchandise Sales

There is no reconciliation process in place to ensure that the TCA receives all commissions from events with merchandise sales, nor is there a feature in the EventPro system that flags whether an event will have merchandise sales. Staff is only made aware of plans to sell merchandise when it is indicated on initial paperwork for the event.

Recommendations

10.6 TCA facility management should explore the capacity of the EventPro system to determine whether events with merchandise sales can be specifically identified. This would assist staff in reconciling merchandise sales to ensure all commissions are received.

10.7 TCA facility management should consider equal application of merchandise sales commission rates across all groups. Although the increase in commissions received would result in a small revenue increase, this practice would provide consistency of treatment.

Management Responses

10.6 *TCA management agrees with this recommendation. TCA staff currently maintains this information in its Front-of-House system; however, the feasibility of utilizing the EventPro system for such tracking will be*

investigated and, if available, will be implemented by March 2015.

10.7 *TCA management will consider this recommendation in its revised operating policies to be submitted to City Council for approval.*



C. Ticket Sales Revenue

Patrons have three options to procure tickets for events at the TCA: in-person at the TCA box office, by telephone, or on-line at TCA's website. Depending on the purchase method, the TCA receives varying amounts of revenue from each ticket sold in the form

of a convenience fee. For in-person and telephone purchases, a \$1.00 per ticket convenience fee is charged. For on-line purchases, a \$3.00 per ticket convenience fee per ticket is charged.

The TCA uses software and hardware supplied by TicketForce to manage ticket sales. The contract with TicketForce, valid through June 30, 2016, requires the TCA to pay TicketForce \$0.20 per ticket sold in-person or on the telephone, and \$1.25 per ticket sold on-line. Ticket Revenue for FY2013/144 is shown below:

Ticket Sales	Convenience Fee Revenue	Tickets Issued (Including Comps)
\$699,103	\$78,032	67,262

The ticket sales figure shown above reflects ticket sales to all events at TCA. It is important to note that this is not all revenue to the TCA. Most events held at the TCA are not produced by the TCA. For non-TCA facility produced events, the production company keeps the ticket sales revenue (less any facility rental charges owed to the TCA) and the TCA only receives the convenience fee.

The breakdown of tickets purchased on-line vs. in-person or telephone from the TCA's opening in 2007 through October 2014 follows:

Revenue Generating Tickets			
Purchase Channel	Ticket Qty.	Total Sales	% Sales
In person or via telephone	109,460	\$1,899,307	47%
On-line	90,672	2,165,883	53%
Total	200,132	\$4,065,190	100%

We observed during the course of the audit that certain procedural changes related to credit card fees and the safe used to store funds collected will serve to strengthen

internal controls over ticket sales processing and revenues.

Safe Access Code and Security

A safe is located in the box office manager's office that is used to secure funds collected in the box office and for facility rentals until deposit. No policy exists to periodically change the safe access code or change it upon a revision of staffing in the box office. At the time of the audit, a staff member working in another area of the TCA (a previous Box Office Manager) still had the safe access code. The security of the safe's contents is compromised when without precautions to ensure only those who need to access the safe can do so. When discovered, Internal Audit recommended the safe access code be changed immediately; it was changed October 27, 2014.

On October 4, 2014, Internal Audit observed the Box Office safe left open while not being used. The Box Office staff on duty confirmed that the safe door is generally left open during business hours. The safe is stored in an area of the Box Office that is not captured by security cameras. Unsecured cash increases the potential of fraud, theft, and misappropriation of funds. Without proper security practices, TCA may lack the necessary means to hold staff members accountable for the safekeeping of funds.

Credit Card Fees

When a patron completes a ticket purchase with a credit card, the City's bank charges a credit card fee. During the audit, we recognized that TCA charges these fees back to the organization producing the event to recoup this fee. While researching this issue, with the assistance of the City's Procurement Office, we discovered that the current practice of charging credit card fees back to clients producing events at TCA

does not comply with the City's credit card processing agreement with our financial institution. Noncompliance could result in monetary fines to the City and/or the

revocation of the ability to process credit card transactions citywide. Any fees specific to credit card transactions must be charged up front to the cardholder.

Recommendations

10.8 TCA should develop a policy to periodically change the safe access code. Annual code revision should be a minimum standard with more frequent changes to be made depending on staff turnover/reassignment. Only those with a need should have access to the safe. The safe should be closed and locked when not in use.

10.9 TCA should immediately cease the practice of charging back organizations producing events to recoup credit card fees. If TCA chooses not to charge the credit card fee upfront to the cardholder, TCA

facility management should request the assistance of the Procurement Office to review options to recoup the processing fee by other means such as an "administrative fee" charged to production clients that would include box office set up, administrative processing, bank fees, paperwork, etc.

10.10 Financial Services should provide formal training citywide to areas with credit card processing to ensure all areas are knowledgeable about credit card rules and the requirements contained in the City's credit card processing contract with our financial institution.

Management Responses

10.8 *This process has been implemented.*

10.9 *This practice has stopped.*

10.10 **Finance**
Finance will send out a message citywide in March (and then every January after that) discussing appropriate credit card processing protocol.

TCA
TCA management and staff will continue to maintain regular contact with Financial Services staff regarding bank-related policies and procedures.

D. Facility Rental (Non-ticketed Event) Revenue

A significant portion of earned revenues of the TCA comes from rental fees for their theater and studio facilities, as well as other rooms/locations within the facility. In addition to performance events, the TCA houses weddings, business meetings, and other social gatherings.

Event rates are based on a per-day or per-hour charge, depending on the location within the facility. A three-tiered fee schedule is used to determine the facility

rental rates charged. Tier 1, the lowest rate, is charged to partner groups. Tier 2 is charged to non-commercial organizations and Tier 3, the highest rate, is charged to commercial organizations. Rental rates are bundled into packages for wedding and meeting rentals.

The following chart summarizes facility rental activity processed through EventPro since its implementation to August 2014 - (approximately 16 months):

Summary of Revenue by Day								
From April 11, 2013 (Implementation of EventPro) to August 2, 2014								
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Total
201 Lounge	\$ 1,180	\$ 4,620	\$ 4,780	\$ 1,230	\$ 1,375	\$ 550	\$ 4,700	\$ 18,435
Conference Room			150					150
East Breezway	120		150				900	1,170
Entire Facility			4,000				9,600	13,600
Gallery			350	980		575		1,905
Lakeside	6,370	2,900	10,350	13,350	14,400	4,495	8,520	60,385
Lobby	3,750	1,300	7,950	9,745	4,600	335	10,250	37,930
Lounge			420	370			600	1,390
North Patio		225	1,620		885	420		3,150
Parkside Plaza		250			250			500
Roof Top Terrace	180		720	300		750	225	2,175
Studio	5,135	23,590	5,290	2,175	4,170	4,660	7,720	52,740
Theater	17,550	83,675	16,220	9,104	12,802	22,364	28,057	189,772
Grand Total	\$ 34,285	\$116,560	\$ 52,000	\$ 37,254	\$ 38,482	\$34,149	\$ 70,572	\$ 383,302
Percent of Total	9%	30%	14%	10%	10%	9%	18%	

The reason revenue for Mondays is higher than the other days, per TCA facility management, is because Childsplay is billed weekly for its usage on Mondays. In addition, management reports that Fridays are light for social and business rental events and there are no weddings booked on Fridays most of the year because the Comedy Show is booked in the Lakeside Room. Sundays typically consist only of matinees performances for Childsplay.

Segregation of Duties – Cash Handling

TCA's Cash Handling Procedures for facility rentals do not include strong, well defined roles and responsibilities that adequately segregate incompatible functions. The TCA Sales and Booking Agent is solely responsible for the following processes related to non-ticketed events recorded in EventPro:

- ✦ Creating, modifying and voiding accounts receivable invoices.

- ✦ Receiving checks and cash payments for rental venues.
- ✦ Making weekly deposits (in sole custody).
- ✦ Recording payments in EventPro for rental income.
- ✦ Researching accounts receivable invoice discrepancies.
- ✦ Sending out delinquent notices and forwarding delinquent invoices to collections.
- ✦ Updating the deposit information into an Excel spreadsheet.
- ✦ Delivering completed deposit bags to the Box Office for armored car service.

General Cash Handling Procedures

Although cash-handling procedures have been developed by TCA staff, these procedures are not comprehensive. Opportunities exist to strengthen the internal controls to prevent potential misappropriation, fraud and human error related to handling checks and cash. During the process of our review, we identified the following cash-handling processes that present risks of loss of misappropriation of funds:

- ✦ Checks are left in an employee's mail slot or an In/Out basket in the TCA Administrative Office.
- ✦ Staff sometimes leave cash or checks on top of the Sales and Booking Agent's desk or slide the funds between the open space above the desk drawer.
- ✦ Other TCA employees have keys the Sales and Booking Agent's desk drawer.
- ✦ The deposits for TCA's non-ticketed items are only made weekly.
- ✦ Checks are not restrictively endorsed upon receipt.
- ✦ A check log and deposit spreadsheet is updated as part of the deposit preparation instead of when they are received.

- ✦ The date payments are received is not being recorded by the Sales and Booking Agent.
- ✦ Per the Sales and Booking Agent, deposits are prepared and verified in sole custody.

TCA cannot identify when payments are received. This increases the potential that payments may not be posted in a timely manner, which could result in late fees being incorrectly accessed against an outstanding accounts receivable balance. Delinquent notices or collection actions may be initiated in error. This may negatively impact a patron's TCA experience and affect their decision to revisit or refer TCA for future events.

The absence of effective cash handling procedures may contribute to lost or misappropriated checks going undetected. In June 2014, our financial institution notified the City's Accounting Division that a credit adjustment for \$3,497 was issued against a deposit totaling \$7,602. In addition, a patron who wrote one of the checks included in this adjustment contacted TCA in June 2014 to inquire why their check had not been cashed. Both patrons reissued their checks; TCA paid the bank stop payment fee for one of the patrons.

Event Deposits

Per TCA policy, a 25% deposit is required for all non-ticketed events upon the completion of an executed agreement in order to secure the event date.

For the period of March 26, 2013 to August 12, 2014, 160 out of 251 (63.7%) deposits were received between 1 to 214 calendar days after their due date. The following table illustrates:

# of Days After Due Date	# Of Deposits
1 - 10	85
11 - 20	45
21 - 60	24
61 -100	3
101 - 214	3
Total	160

In addition, 74 out of the 251 deposits (29.6%) received for the period were less than the required 25%. The variance totaled \$11,788 or 6.9% of the total deposits collected for the period (\$169,905). The exceptions to the deposit requirements stated in the TCA Operating Policies were approved by the Business Development Specialist.

Inconsistent application of established policies that affect customers has the

potential to negatively affect customer relations.

Amendments to Facility Rental Cost Agreement

Facility rental clients sign an agreement establishing the expected cost based on the initial facility needs identified. When clients' needs change (i.e., more space is needed or equipment needs change), signed amendments to the initial agreement are not prepared. Any adjustments to the initial price quoted are reflected on the final invoice only. By not formally documenting changes in the agreed-to prices and services, services may go unbilled and revenues could be lost. In addition, TCA lacks the necessary documentation to successfully defend the city's right to collect on outstanding balances.

Recommendations

10.11 TCA facility management should review the revenue by venue and day of week and develop a strategy to capitalize on opportunities to increase facility revenue on low-use days.

10.12 TCA facility management should take the following steps to strengthen internal controls over cash handling including:

- ✦ Review and update TCA Cash Handling Procures to include adequate segregation of duties and responsibilities.
- ✦ Prohibit access to funds by the same person that is generating,

- modifying and voiding invoices and initiating collections actions.
- ✦ Restrictively endorse checks upon receipt.
- ✦ Store undeposited funds in a secure location and limit the number of individuals with access to the funds.
- ✦ Increasing the frequency of deposits.
- ✦ Identifying a single point of receipt for all deposits.
- ✦ Train and effectively communicate updated cash handling procedures to TCA staff.

10.13 The TCA's Operating Policy related to the 25% deposit for events should be reviewed and updated, as applicable. The policy should identify who and when an exception to the deposit policy maybe be granted. Any delegation of duties should be documented, properly approved by facility management and a copy of the authorization

document should be maintained by TCA.

10.14 TCA should consider documenting a change order for all amendments to services and prices after initial agreements are signed. The customer's signature should be required for all change orders related to an executed facility rental agreement.

Management Responses

10.11 *TCA management agrees with this recommendation and will implement as suggested by June 2015.*

10.12 *These recommendations have been implemented within the limitations of staff availability. Though frequency of deposits has been increased, TCA facilities management is pursuing ways to use the limited number of staff to make daily deposits while maintaining segregation of duties.*

10.13 *TCA management is addressing this recommendation as a part of a revision of operating policies to be submitted for City Council approval prior to July 2015.*

10.14 *TCA management agrees with this recommendation and will investigate feasibility with an anticipated implementation date of May 2015.*

E. DISCOUNTS

During our review of facility rental transactions, we found examples of TCA staff and facility management approved discounts from Council-approved facility rental rates. Total discounts off published rates we identified are detailed below:

Event	Discount
Wedding-Aug 2013	\$800
Comedy School	79,250
Partner Symphony	135,120
Summer Arts Academies	15,575
Realty Executives	1,200
Total	\$231,945

Wedding – August 2013

A wedding party needed to revise their initial space rental plans and add the lobby as an overflow space. The wedding party claimed they had reached their budget so TCA staff granted an \$800 discount off the published rates on the space rental.

Comedy School

A comedy school rents various rooms within the TCA facility for their programs. Per TCA facility management, the school rents during the weekday nights when the facility

does not tend to be booked. The school has been renting since 2012, so TCA facility management feels they are a long-time client. Based on these reasons, TCA facility management provided discounted rates to the school. The school is charged \$100 for five hours (\$20/hr.) use of the 201 Lounge; the published commercial rate is \$150 per hour. The school is charged \$250 for 1 ½ hours use for the Lakeside room; the published commercial rate is \$500 per hour. The school also uses the Studio and is charged \$100 for 5 hours when the published commercial rate is \$450 (per day). From August 2013 to June 2014, the Comedy School was provided a total discount of \$79,250 on facility rentals.

Partner Symphony Groups

Two partner entities are charged a \$200 “orchestra rehearsal rate” (flat rate) for use of the Lakeside Room. The room is booked in excess of 6 hours each day by the groups, which would result in a charge of \$3,015 per day at the published rate. The calculated discount for FY2013/14 was \$78,820 for AZ Wind Symphony and \$56,300 for Tempe Wind Symphony Ensemble. Per TCA facility management, this non-published, discounted rate was established through conversations with Community Service management when the TCA opened. The justification was that the organization would be using the room during week nights when rental possibilities were less likely.

Summer Arts Academies

Two summer arts academies are charged a \$200 “orchestra rehearsal rate.” As stated above, this is an unpublished discounted rate. Per TCA facility management, these academies were charged the \$200/day orchestra rehearsal rate because it was the slow time of the year for rentals and they agreed that TCA could book the rooms when the academies were not using them. The Arizona Academy of the Arts received a \$14,075 reduction from the published rate and Childsplay received a \$1,500 reduction.

Realty Executives

This entity received a \$1,200 discount on lobby rental. Per TCA staff, the prior Business Development Coordinator gave a discount to Realty Executives by not charging for the lobby rental. As a return customer, the prior contract was examined by current staff and the prior discount of \$2,875 was discovered. As a good faith effort to keep Realty Executives’ return business, TCA staff, with facility management’s approval, provided a \$1,200 discount off of the normal charge of \$2,875 for the lobby rental.

Although it can be a sound business decision to discount rates in certain situations to book business that you may otherwise miss out on during lower-demand time slots, the amount of discounted services granted over the past two years is significant and impacts the financial sustainability of the facility. In some cases, especially where facilities within the TCA were rented for \$20 per hour, the revenue most likely did not cover staffing, operational, and overhead cost.

Recommendation

10.15 TCA facility management should consult with the City Attorney's Office to determine what authority, if any, they have to offer discounts off of Council-approved published rental rates. A cost benefit analysis should

be performed prior to offering discounted rates to determine the viability of the business transaction before any agreements with rental clients are finalized.

Management Response

10.15 *TCA facility management will consult with Community Services leadership and the City Attorney's Office*

regarding this recommendation by June 2015.

Expenditures

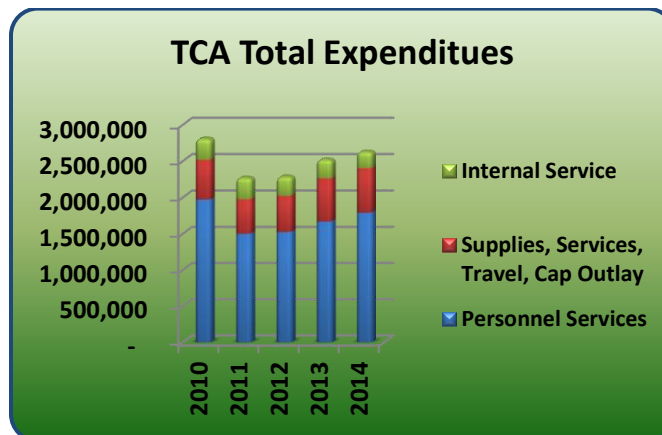
Historically, personnel costs have made up the majority of TCA's operating expenditures. In FY 2014, personnel expenses comprised 69% of total

expenditures. An analysis of the expenditures by category for the past five fiscal years follows:

Expenditure Category	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Advertising	3,909	193	3,032	18,946	15,594
Consultants, Contracted Services	70,119	53,307	46,674	70,882	63,922
Equipment Maintenance	43,050	44,448	48,378	58,170	54,928
Event	5,329	(480)	159	3,781	18,324
Facility Operating & Maintenance	356,180	313,770	323,090	358,408	375,801
General & Office	27,962	30,416	33,365	35,289	35,820
Interactivity	128,408	120,360	113,548	114,224	120,532
IT, Computer, Communications	168,895	152,210	165,461	168,801	127,943
Personnel	1,988,112	1,514,669	1,541,335	1,677,843	1,804,107
Reimbursement	-	30,635	-	-	-
Vehicular	15,494	11,419	11,722	14,281	13,250
Total	\$2,807,458	\$2,270,947	\$2,286,764	\$2,520,625	\$2,630,221

Note: These figures do not include debt service or CIP costs.

The following is a graphical depiction of these expenditures:



11. Opportunities for More Effective Management of Operating Expenses Were Identified...

TCA's Overall Operating Costs

The Americans for the Arts conducted a study of per capita operating expenditures for local arts agencies serving 58 of the largest 60 cities in the US for 2013. The following is a comparison of the per capita operating expenditures from the study as compared to the TCA's per capita operating costs. Note the TCA's operating costs are *nearly double* the average costs per capita found in the referenced study:

Study Results: 2013 Average Per Capita Operating Cost	\$7.58
TCA Per Capita Operating Costs 2013	\$15.11*

**\$2,520,625/166,842 (population); this consists only of TCA operating costs, not all of cultural services as in the study. If cultural services costs were included, the per capita costs would be even higher than \$15.11.*

To give perspective, the range of per capita expenditures in the study was from \$0.14 (Anaheim, CA) to \$48.38 (Denver, CO). For comparison purposes, Mesa's per capita expenditures were \$29.52 and Phoenix's were \$1.06; the large range reflects the various operational models in place.

Recommendation

11.1 Overall operating costs for the TCA need a thorough review by TCA facility management. A focus on a

business perspective of operating costs and not on reliance of the performing arts tax should be undertaken.

Management Response

11.1 *TCA facility management will work with Community Services leadership to review operating costs and develop a*

plan to explore potential revisions by June 2015.

Electricity Charges

Electricity charges for the TCA are quite substantial. For the period FY2009/10 to FY2013/14, charges ranged from 9.1% to 9.7% of total expenditures to operate the TCA (between \$207,320 and \$257,105). The City's Energy Management Coordinator was asked about the significant electricity costs. She stated that the TCA is one of the City's two highest energy users in the APS service area. The building is on the E-32L rate plan which is a higher rate than other City buildings. During the City's solar RFP process, the TCA was identified as being a good candidate for solar to help off-set the costs of electricity. This option is still on

the radar, but there are other solar projects in the works so TCA would be further down the road.

TCA facility management advised that some effort has been made to reduce electricity costs and address aging equipment including: (1) the Gallery was retrofitted with 50% LED lights and some rooms have motion sensors, (2) the biggest cost is air conditioning (maintenance staff has been battling aging equipment), and (3) a discussion took place 4-5 years ago about using solar panels in the parking lot, but the idea was tabled.

Recommendation

11.2 TCA facility management should continue to work with the City's Energy Management Coordinator to search for solutions to reduce the electricity costs. Electricity charges need to be evaluated and solutions to

reduce costs should be pursued. Management should also pursue other solutions such as an energy evaluation and possible solar shade panels for the TCA parking lot.

Management Response

11.2 TCA facility management will continue to pursue cost effective opportunities

to reduce electrical consumption throughout the facility.

Municipal Arts Fund Expenditures

Although not specifically-related to the TCA, Internal Audit briefly reviewed the Municipal Arts Fund. In 1988, Resolution No. 88.43 established a non-departmental account designated “Municipal Arts Fund” (MAF) to “be expended by the City Council for the purpose of advancing art in all its forms for the benefit of the public.” This purpose may be perceived as broad and subject to interpretation. An amount equal to ½ of one percent of the total capital improvements budget for each fiscal year was to be appropriated into the account on an annual basis. In 1995, Resolution No. 95.43 increased the amount of funding to 1% while maintaining the parameters for the use of the funds.

Expenditures from the fund are overseen by Community Services. The MAF has been used to fund the following:

- ✦ Musical performances at TCA

- ✦ Art Instruction Programs
- ✦ Arts Grants
- ✦ Salaries of Arts/Gallery staff positions
- ✦ Public art and the maintenance of public art

Community Services is not expending the entire budget each FY. The fund balance is in excess of \$2 million. Per staff, factors contributing to the balance are changing construction schedules and the need to maintain a balance for repair and maintenance of the 70 public art pieces. Currently only 1% of the Water CIP Budget is being contributed to this fund. During the recession in FY 2008, the General Fund was not financially able to contribute 1% to MAF; therefore, the General Fund contribution was postponed. In FY2010, the Transit Fund was not financially able to contribute 1%; therefore, that fund’s contribution was also postponed.

Municipal Arts Fund	FY 2012	FY 2013	FY 2014
Budget	\$1,353,285	\$696,794	\$845,188
Expenditures	553,285	403,571	535,723
Balance	800,000	293,223	309,465
% of Budget Expended	40.88%	57.92%	63.39%

Excess contributions to the MAF will result in a large fund balance not put into service. Additionally, not having more specific

guidelines as what the funds can be expended on may impact expenditures each year. Having a large fund balance may give

the wrong perception and have an impact on fundraising efforts as donors and potential sponsors may question true needs and values.

As a side note, Childsplay, a key partner organization of the TCA, benefits from the MAF (along with other partners to a lesser

extent). Childsplay received the following MAF grants:

FY2010	FY2011	FY2012	FY2013	FY2014
\$53,000	\$53,000	\$55,000	\$57,500	\$57,500

Recommendation

11.3 The purpose of the MAF needs to be revisited as the current language may not be clear and is subject to interpretation. Additionally, the fund balance should be monitored by Community Services management to determine if there are recommended changes to the contribution percentages from the various CIP funds. This should be performed in

unison with the Municipal Arts Commission. Additionally, Mayor and Council's direction may need to be revisited and policies drafted as to the purpose of the fund with a clearly-defined list of allowable expenditures. Any revised percentage contributions should be approved by Mayor and Council, in addition to consideration of future uses of the excess fund balance.

Management Response

11.3 *The current purpose of the MAF is outlined in the city's Resolution No.95.43. The results of the Tempe*

Arts Plan will provide further direction on this item.

Erroneously Recorded Expenditure

In FY 2013-2014, there was a \$3,000 disbursement to CPC Construction Co. charged to the Municipal Arts Fund grant cost center (fund 66, cost center 6630) in error. The payment was for the construction of a concrete pad for a public art project. This expense should have been charged to a public art project instead (cost center 6605779). It is the responsibility of the person who processes the invoice and creates the requisition at the department level to ensure it is charged to the correct cost center.

This error was not previously detected, indicating that no review of PeopleSoft reports is being performed at the department level to ensure costs are charged to the correct cost center and account. Although this transaction amount was not significant and the miscoding appears to be isolated, the overarching issue is one of proper review.

The department was under the impression that Financial Services verifies that expense are charged to the correct cost center. Financial Services only processes the

requisition as it is entered by the department, which emphasizes the importance for staff at the department level to review PeopleSoft

reports for the cost centers they are responsible for to ensure expenses are charged to the appropriate cost centers.

Recommendation

11.4 The staff member responsible for the budget in each department/division should perform a monthly review of PeopleSoft reports to ensure that all transactions are recorded properly. The staff member responsible for the grant fund cost center took the

initiative to meet with Accounting staff in Financial Services and devised a plan to properly track grant expenses. Municipal Art Fund grant expenses should be properly tracked and reconciled going forward.

Management Response

11.4 *This process has been implemented for the Municipal Arts Fund.*

Section 5 – Relationships

As discussed in Section 1, nine (9) partners were instrumental in the formation the opening of the TCA. In addition to key partners, the Friends of the TCA (now TCA Foundation), was formed just prior to the TCA's opening.

Another set of important relationships for TCA to consider are those with other Valley arts centers. Cooperation and strategic collaboration with other centers can be

critical, especially when booking touring performers. Avoiding competition amongst local centers for the same acts, which results in driving up the cost, can be avoided with cooperation. During our study of other local and regional arts centers, managers often mentioned the importance of the development of relationships amongst industry managers on a local and regional basis.

12. TCA can reduce risk and benefit from more effective management of key relationships.

Friends of the TCA/TCA Foundation

In 2006, the Friends of the TCA, a 501(c)(3) corporation, was formed as a support group for the TCA. In May 2013, the name of the corporation was changed to the TCA Foundation. The 2014 revised bylaws state that the purpose of the Foundation is to:

...advance the mission of the Tempe Center for the Arts (TCA) by providing advocacy and financial support; foster closer relations between the TCA and the citizens of Tempe and environs; to promote knowledge of the programs, resources, services and needs of the Center; participate in fundraising efforts to support development of programs of the TCA and its services, as well as performing arts organizations that utilize the TCA.

The bylaws state that the Board shall contain no fewer than five (5) and no more than thirty (30) directors.

In June 2009, the City executed a 10-year agreement with the TCA Friends/Foundation (Foundation) outlining each party's responsibilities. The City designated the Foundation as the fundraising organization for the TCA and allowed the Foundation to use designated facilities and equipment. The Foundation agreed to make specific financial records available to the City, establish a conflict of interest policy, and to maintain certain levels of insurance. In June 2011, the agreement was amended to specify certain complimentary use of the TCA by the Foundation for fundraising events and performance-based Foundation-produced events. The City Attorney's Office is currently working with the Foundation on a

new agreement, which is pending until this audit is finalized.

The most significant donation to the TCA by the Foundation, since inception, was a Ravenscroft piano purchased by the Foundation for \$275,000 and donated to the TCA in 2011. The most recent contribution was in FY2012/13; the TCA received a \$14,000 grant from the Foundation for exhibits, educational programming and guest artists. No grant was received in FY2013/14.

Conflict of Interest

During our review of various partner and support group board member rosters and meeting minutes, we identified several apparent conflict of interest situations. A conflict of interest is a set of circumstances that creates a risk that professional judgment or actions regarding a primary interest will be unduly influenced by a secondary interest. Undisclosed conflicts of interest can influence the public perception of potential contributors to the Foundation. The following instances were identified:

- ✦ According to a meeting attendee, two Board Members of the Foundation voted to transfer money from the Foundation to a separate non-profit corporation (Hayden's Ferry Chamber Music Series) where these same individuals serve on the Board of Directors. This appears to be a conflict of interest. The meeting notes where the vote took place do list these two members in attendance; however, the notes are not in sufficient

detail to determine who voted on the motion or if any member abstained.

Aside from the potential conflict of interest issue, by transferring money from the Foundation to a separate 501(c)(3) organization, the Foundation seems to steer away from its purpose to support the TCA. Funds were provided to a separate corporation that may or may not perform solely at the TCA. According to TCA facility management, they plan to sign an agreement with the new company that will require the organization to pay rent at the non-commercial rate. They are unsure whether the group will perform solely at TCA.

- ✦ Five (5) separate conditions were observed where a Board Member of the TCA Foundation was also a Board member of a partner organization, and/or were also resident companies that receive unique benefits due to the partnership.

1. An Officer and Director of the TCA Foundation is also a Director of the Hayden's Ferry Chamber Music Series.
2. A Director of the TCA Foundation is also an Officer and Director of

Hayden's Ferry Chamber Music Series.

3. A Director of the TCA Foundation is also a Director of Childsplay.
4. An Officer and Director of the TCA Foundation was also an Officer and Director of Lakeshore Music.
5. A Director of the TCA Foundation was an Officer and Director of Lakeshore Music.

Although the Foundation Bylaws do address conflicts of interest, the Foundation does not have robust policies and procedures addressing such situations and the need to declare conflicts and abstain from voting where appropriate.

Audited Financial Statements of the Foundation

The existing MOU between the City and the Foundation requires the Foundation to compile annual audited financial statements; however, there is no related time requirement for the statements to be completed. The December 31, 2012 audited statements were not completed until January 2014. At the time of our audit request for financial data, 2013 audited statements were not yet available. For the financial statements to be useful, they should be timely.

Recommendations

- 12.1** Should the Foundation remain in its current state and role as a support group for TCA, a robust policy should be developed requiring an annual conflict of interest discussion by Board members and written declarations by each member of the presence and/or

absence of conflicts of interest. In addition, all meeting minutes should reflect whether or not these members with conflicts are voting on sensitive related issues pertaining to entities that they are involved with. The City should consider placing these

requirements in any new MOU with the Foundation. Any changes to the MOU should be made only after considering whether the City should continue the relationship with the current Foundation or look at other models as mentioned earlier in this report (Organizational Structure). Any MOU should also clearly specify the role and purpose of the Foundation.

12.2 Provided that the relationship with the Foundation remain in its current form, the MOU should be revised to require statements be audited within a certain timeframe after the end of the FY (perhaps six to nine months).

Management Responses

12.1 *Management agrees with this recommendation and should the relationship with the Foundation remain in its current format, this will be included in the revised MOU.*

12.2 *Management agrees with this practice and should the relationship with the foundation remain in its current format, this recommendation will be included in the revised MOU.*

Partner/Resident Organizations

Organizations involved in the developmental stage of the TCA were accepted or grandfathered as Partners from the inception of the TCA.

For other entities wanting to partner with the TCA, other than the founding partners, there is a formal application process. There are significant benefits to being a partner, mainly in the rates they are charged for performing at the TCA. A review of the existing application forms and discussion with TCA facility management revealed that the application process, including their forms, are outdated (they refer to the Tempe Municipal Arts Commission, which is no longer involved in the process). In addition, a stated requirement that partners reapply for partner status is not enforced, nor is it clear whether grandfathered companies are exempt from this requirement.

Some existing partner or resident companies were not formed until after the TCA was formed; thus being instrumental in the formation of TCA is not applicable, but they still receive benefits in the form of reduced rates. They are as follows:

1. Conder Dance
2. Lakeshore Music

TCA does not actively promote the partner application process, but they do entertain applications if companies inquire. They have had some requests over the years, but many of those companies did not meet the Tempe-based requirement. Other applicants, TCA facility management reports, lost interest when they discovered that there is an application and review process involved.

The existing document process to establish resident/partnership companies is not

utilized in accordance with established terms. The application process is outdated and not followed. Two partnerships have been formed since the first group that was grandfathered. Conder Dance's status is supported with documentation that they went through a formal application process in 2008. Lakeshore Music status was not

supported; apparent potential conflict of interest conditions exist as Officers/Directors of this organization were also Officers/Directors of the TCA Foundation. Established protocol was not followed.

Recommendation

12.3 The TCA Partner Program criteria, eligibility, and application process should be reviewed and updated as needed. Adherence to the updated eligibility criteria should be routinely monitored as well as a review of the

costs/benefits of continuing partnership agreements with companies. Opportunities for mutually beneficial partnerships should be pursued.

Management Response

12.3 *TCA management agrees with this recommendation and will address the issues as a part of a revision of*

operating policies to be submitted for City Council approval prior to July 2015.

